Needs For and Alternatives To

APPENDIX I

Manitoba Hydro-Electric Board
61st Annual Report

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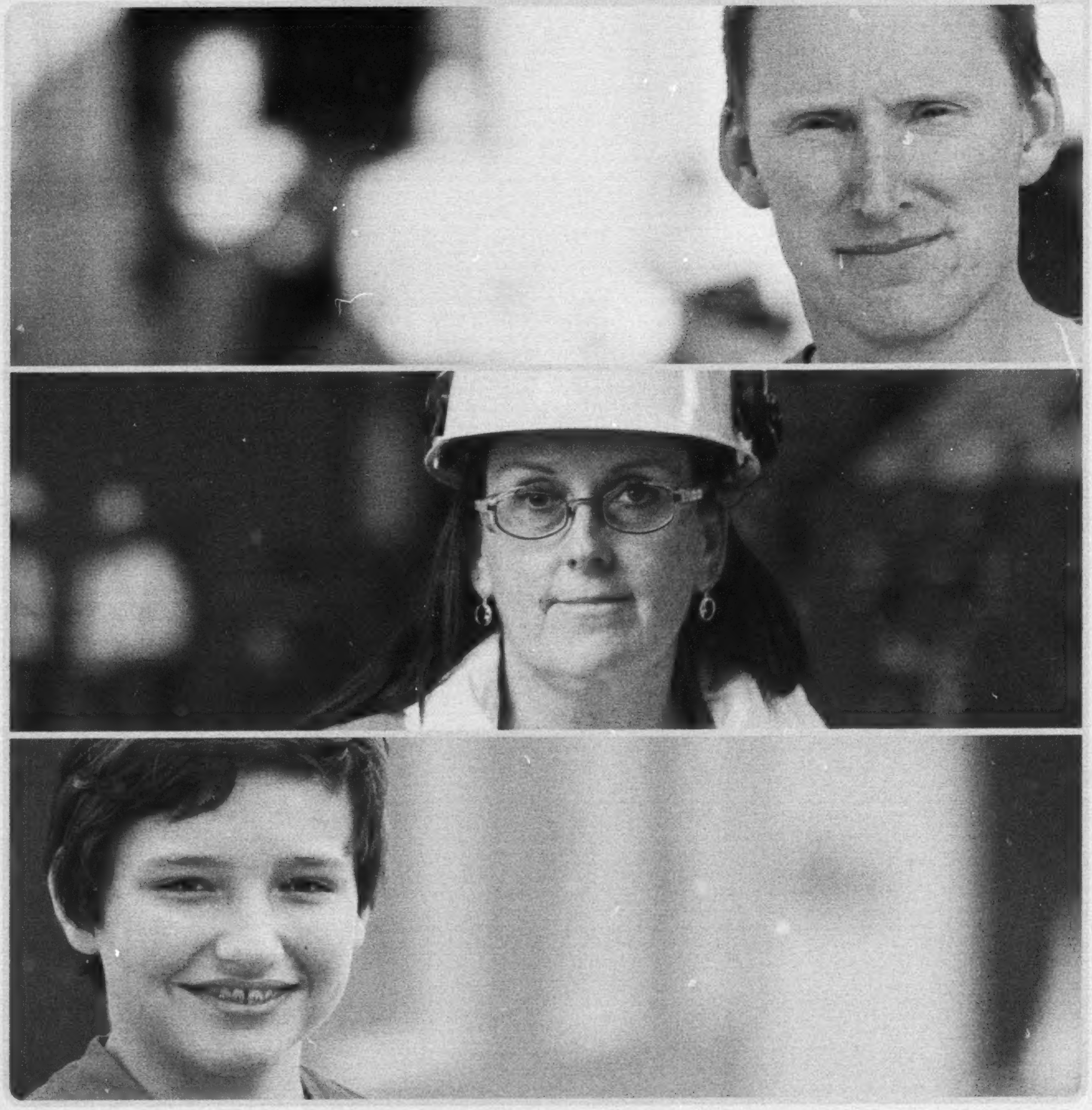
OUR FOCUS



Manitoba Hydro-Electric Board 61st Annual Report
For the Year Ended March 31, 2012

Manitoba
Hydro

CORPORATE PROFILE

Manitoba Hydro is one of the largest integrated electricity and natural gas distribution utilities in Canada. We provide reliable, affordable energy to customers throughout Manitoba and trade electricity within three wholesale markets in the Midwestern United States and Canada. We are also a leader in promoting conservation, providing numerous Power Smart* programs to help our customers get the most out of their energy.

Nearly all of the electricity Manitoba Hydro produces each year is clean, renewable power generated using the province's abundant water resources.

Manitoba Hydro is a provincial Crown Corporation governed by the Manitoba Hydro-Electric Board, whose members are appointed by the Lieutenant-Governor in Council.

VISION

To be the best utility in North America with respect to safety, rates, reliability, customer satisfaction and environmental leadership; and to always be considerate of the needs of customers, employees and stakeholders.

MISSION

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy.

CORPORATE GOALS

- Improve safety in the workplace.
- Provide exceptional customer value.
- Strengthen working relationships with Aboriginal peoples.
- Maintain financial strength.
- Extend and protect access to North American energy markets and profitable export sales.
- Attract, develop and retain a highly skilled and motivated workforce that reflects the demographics of Manitoba.
- Protect the environment in everything that we do.
- Promote cost effective energy conservation and innovation.
- Be recognized as an outstanding corporate citizen and a supporter of economic development in Manitoba.

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*Manitoba Hydro is a licensee of the Trademark and Official Mark.

July 31, 2012

Honourable Dave Chomiak
Minister charged with the administration of the Manitoba Hydro Act
Legislative Building
Winnipeg, Manitoba
R3C 0V8

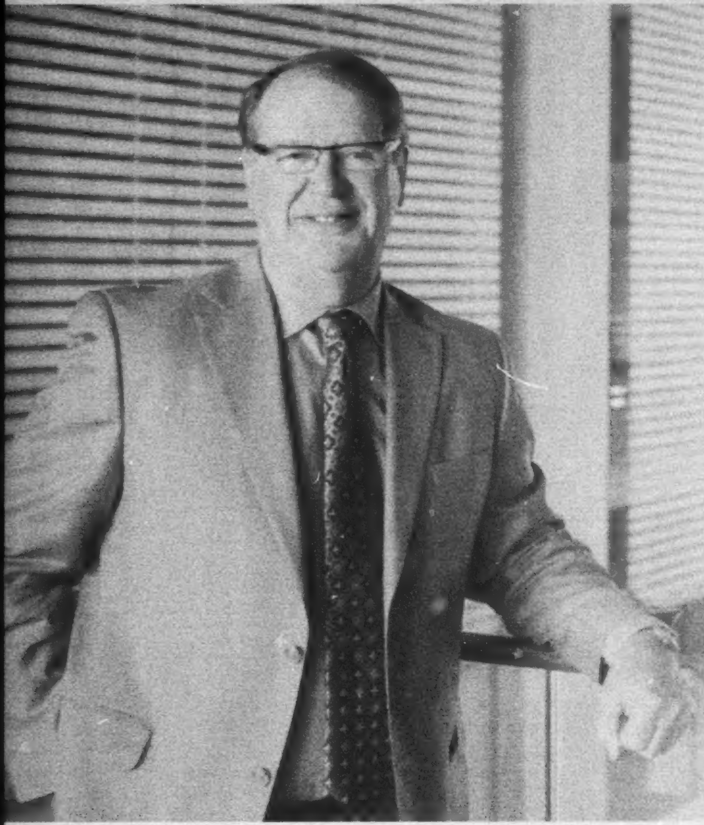
Dear Minister:

I have the honour of presenting the 61st Annual Report of The Manitoba Hydro-Electric Board, together with the financial statements, for the fiscal year ended March 31, 2012.

Respectfully submitted,

William C. Fraser, FCA
Chairman, The Manitoba Hydro-Electric Board

CHAIRMAN'S MESSAGE



In 2011-12, the Manitoba Hydro-Electric Board saw good progress on a number of key projects, including the Wuskwatim and Keeyask generating stations as well as the Bipole III transmission line. We also said goodbye to two men who played a key role in setting the strategic course for development of these projects.

In February 2012, Bob Brennan retired from the position of President and Chief Executive Officer, after serving 21 years in that role. Vic Schroeder also retired as Chairman of the Manitoba Hydro-Electric Board. Both of these men made valuable contributions to the success of Manitoba Hydro, including forging strong relationships with Aboriginal people that enabled groundbreaking partnerships.

One of these partnerships is with the Nisichawayasihk Cree Nation (NCN) for development of the nearly completed 200-megawatt Wuskwatim Generating Station on the Burntwood River. NCN was involved in the early planning of the project and had significant input into the project's environmental impact statement. A project development agreement also provides the Cree Nation with the opportunity to own up to 33 percent of the generating station once it's completed.

In spring 2011, the board approved the decision to proceed with the Keeyask Generating Station which will also be developed in partnership with First Nations. Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation collectively have the right to own up to 25 percent of the 695-megawatt station that will be built, pending regulatory approval, on the Nelson River.

These partnership arrangements ensure that benefits from new generating stations flow not only to our ratepayers, but also to those communities directly affected by the developments through business, employment and income opportunities.

A planning process is also underway with communities in the vicinity of the proposed 1 485-megawatt Conawapa Generating Station, including Fox Lake Cree Nation, York Factory First Nation, the Cree Nation partners (Tataskweyak Cree Nation and War Lake First Nation) and Shamattawa First Nation. Conawapa would be built on the Nelson River in the Fox Lake resource management area.

The board was also pleased with progress over the last fiscal year on the Bipole III transmission project, which will provide important reliability improvements. The project's environmental impact statement was filed with Manitoba Conservation in December 2011 and public hearings by the Clean Environment Commission are planned for the fall of 2012.

The proximity of the existing Bipole I and II transmission lines within the same corridor through the Interlake leaves the province's energy supply vulnerable to extreme weather events. These two lines carry approximately 70 percent of the electricity generated by Manitoba Hydro. The Bipole III line, along with two associated converter stations, will bring important diversity to the provincial transmission system. It will also provide additional capacity for delivering new hydroelectric generation to southern markets.

One of the most important responsibilities for any board is the selection of a chief executive officer. During the last fiscal year, the Manitoba Hydro-Electric Board's human resources committee worked closely with an executive search firm to identify candidates for this position at Manitoba Hydro. After a thorough review and interview process, Scott Thomson was recommended to and confirmed by the Premier of Manitoba.

One of the most important responsibilities for any board is the selection of a chief executive officer. During the last fiscal year, the Manitoba Hydro-Electric Board's human resources committee worked closely with an executive search firm to identify candidates…

As a chartered accountant, Scott brings an extensive background in the energy utility business that includes managing regulatory relationships and long-range financial planning. Before joining Manitoba Hydro, he was Executive Vice-President, Finance, Regulatory Affairs and Energy Supply and Chief Financial Officer at FortisBC Holdings Inc.

I look forward to working with Scott to continue to build a strong corporation and make the decisions necessary to ensure Manitoba Hydro continues delivering reliable and affordable energy to Manitobans. I also look forward to working with all my colleagues on the board, including the new members appointed in the last fiscal year; David Crate, Tina Keeper, Eugene Kostyra, Dudley Thompson, Larry Vickar and Frank Whitehead.

I want to thank Bob, Vic and the outgoing board members for their contributions. I also want to express my appreciation to the employees of Manitoba Hydro for their continued dedication to serving the corporation's customers and building a powerful energy future for this province.

William C. Fraser, FCA
Chairman, The Manitoba Hydro-Electric Board

PRESIDENT AND CEO'S MESSAGE

The theme of this year's annual report, Our Focus, highlights Manitoba Hydro's drive to provide exceptional value and service to our customers. It's a commitment manifest in our low energy rates and high levels of customer satisfaction; in the wide range of programs and services we offer to help our customers use their energy more efficiently; and in our ongoing work to ensure Manitobans will continue to benefit from this province's abundant, clean energy resources.

Manitoba Hydro continued to deliver on this commitment in 2011-12 while faced with financial challenges. In a year that included a very mild winter with below average precipitation and lower market prices for export electricity sales, the corporation achieved a net income of $61 million. Our retained earnings, which represent the province's cumulative investment in our reserves, have reached $2.5 billion. The debt to equity ratio stands at 74:26, surpassing our target of 75:25.

This positive equity position combined with regular, modest electricity rate increases will enable Manitoba Hydro to make the investments required to renew aging infrastructure and build the generation and transmission capacity necessary to meet our customer's future energy needs and enhance reliability. The 695-megawatt Keeyask Generating Station at an estimated cost of $5.6 billion, the proposed 1 485-megawatt Conawapa Generating Station at an estimated cost of $7.8 billion and the Bipole III high voltage direct current transmission line at an estimated cost of $3.3 billion, are the most significant of these investments. Driving these investments is forecast growth in domestic demand as well as reliability requirements.

Our forecasts indicate that demand for electricity will grow in Manitoba at an annual average rate of 1.6 percent over the next decade – equivalent to about an 80-megawatt addition every year. This is after factoring in the affect of the corporation's aggressive demand side management initiatives. Even with the Wuskwatim Generating Station, which will enter service in 2012-13, new sources of generation will be required to meet Manitoba demand by 2020-21.

Manitoba Hydro will meet this demand in a responsible manner, one that benefits future generations of customers without unfairly burdening current ones. That means balancing the costs of these investments with our commitment to delivering reliable energy at affordable rates.

One way we are doing this is by capitalizing on revenue opportunities that exist in the export electricity market to help offset the costs of building new generation capacity. Although electricity prices have declined recently in the spot market, there continues to be healthy demand for long-term firm supplies of clean, renewable hydroelectricity. Power sales signed with Wisconsin Public Service and Minnesota Power in the last fiscal year are proof of this. The revenues from these sales combined with previously completed deals with Northern States Power will help defray the cost of the new generation projects that are part of our preferred development plan.

Another way we are working to keep energy affordable is by providing a range of Power Smart programs and services that help our customers use energy more efficiently.

> As we work together through the decades ahead, we will maintain a focus on customer service while endeavouring to deliver major generation and transmission projects on time and cost effectively.

Nearly 66 000 residential customers and 1 600 commercial/industrial customers participated in our Power Smart programs during the last fiscal year, saving an estimated $86 million on their energy bills.

Manitoba Hydro has invested over $415 million in Power Smart programs over the last two decades, producing annual savings of nearly 2 000 gigawatt hours of electricity and over 70 million cubic metres of natural gas. We plan to invest another $446 million over the next 15 years with expectations of producing an additional 1 600 gigawatt hours and nearly 67 million cubic metres in annual savings. For comparison, the new Wuskwatim Generating Station will generate approximately 1 550 gigawatt hours per year.

Manitoba Hydro is also taking steps to maintain our superior service to customers. We launched a new centralized dispatch system in 2011-12 that will improve the response time of our service staff by more effectively matching resources to work needs. We are also increasing surveillance of our electric distribution system, using new technology to increase the monitoring of power lines and our ability to locate faults. This will reduce our response times and increase the speed of restoration.

Effectively serving our customers requires a strong, dedicated team. In my short time at Manitoba Hydro I have been impressed by the knowledge and the care – the focus on our customers – that pervades this organization. It is, without a doubt, the primary reason Manitoba Hydro enjoys a reputation for outstanding customer service and reliability within our industry.

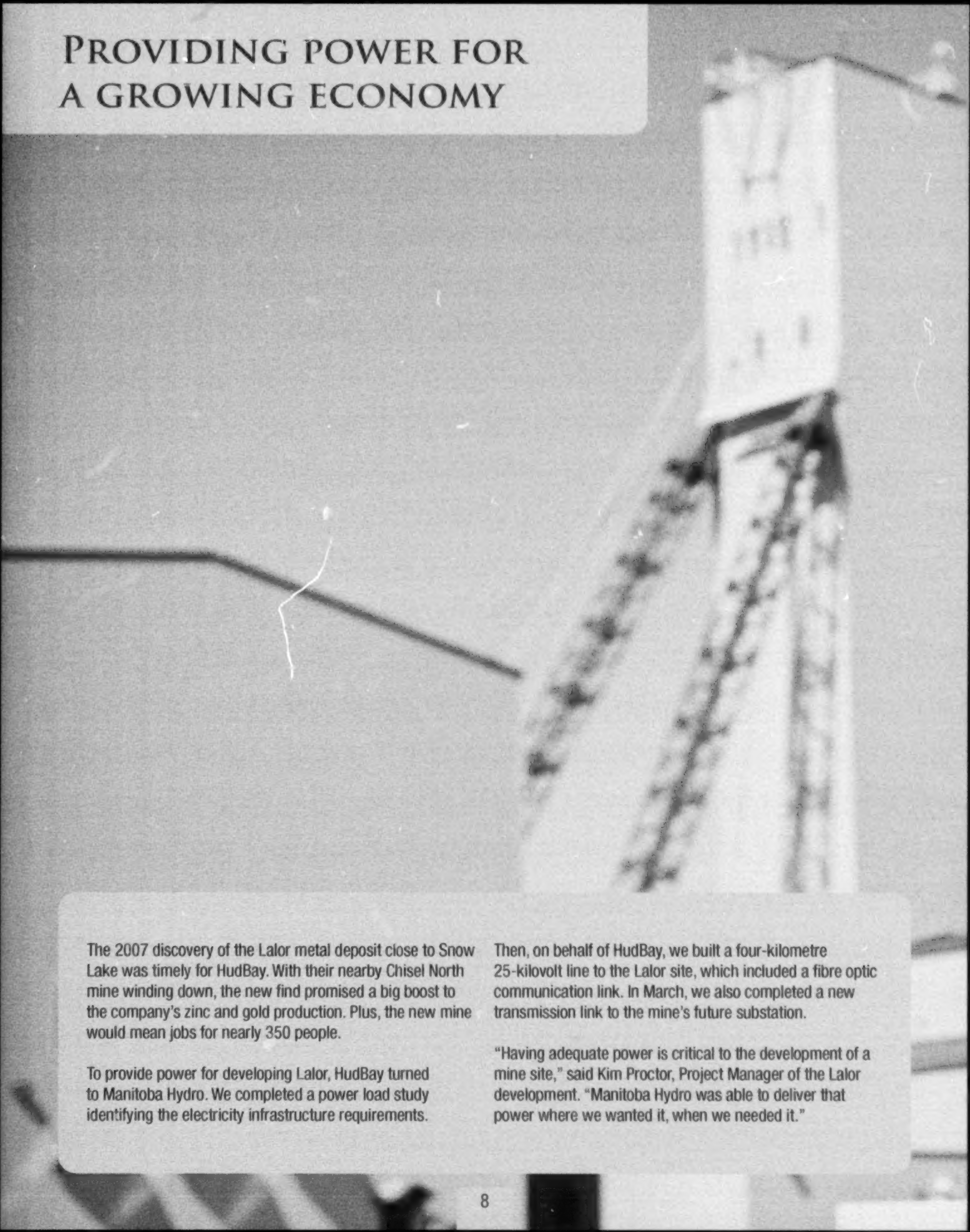
I have also been impressed by the work being done to promote and protect the health and well-being of our employees in the workplace. This is our corporation's foremost objective and something I believe to be of paramount importance.

As we work together through the decades ahead, we will maintain a focus on customer service while endeavouring to deliver major generation and transmission projects on time and cost effectively.

I look forward to working with the board and leading our employees to continue this tradition of service and to further bolster Manitoba Hydro's position as a provider of clean, renewable energy.

Scott A. Thomson, CA
President and Chief Executive Officer,
Manitoba Hydro

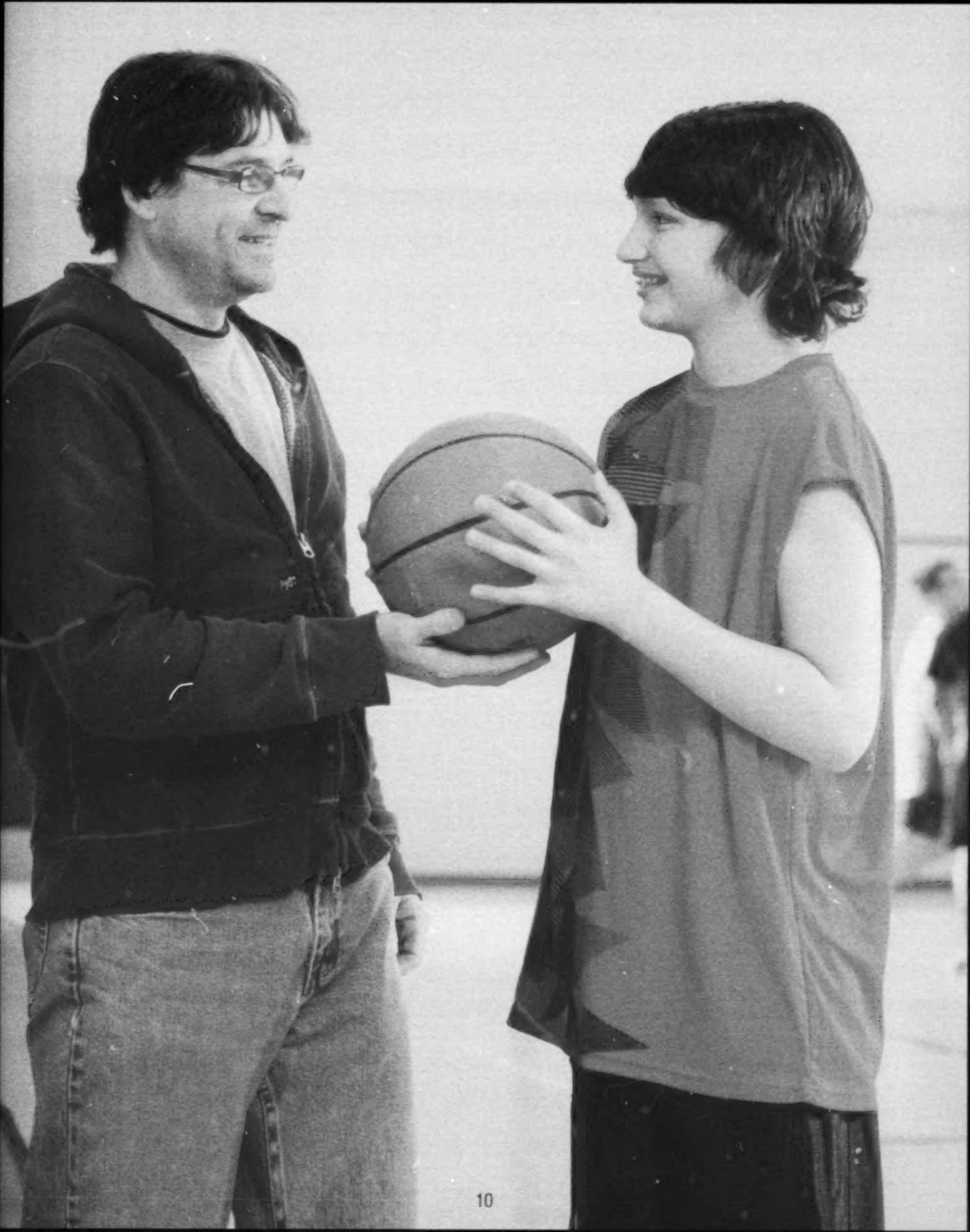
PROVIDING POWER FOR A GROWING ECONOMY



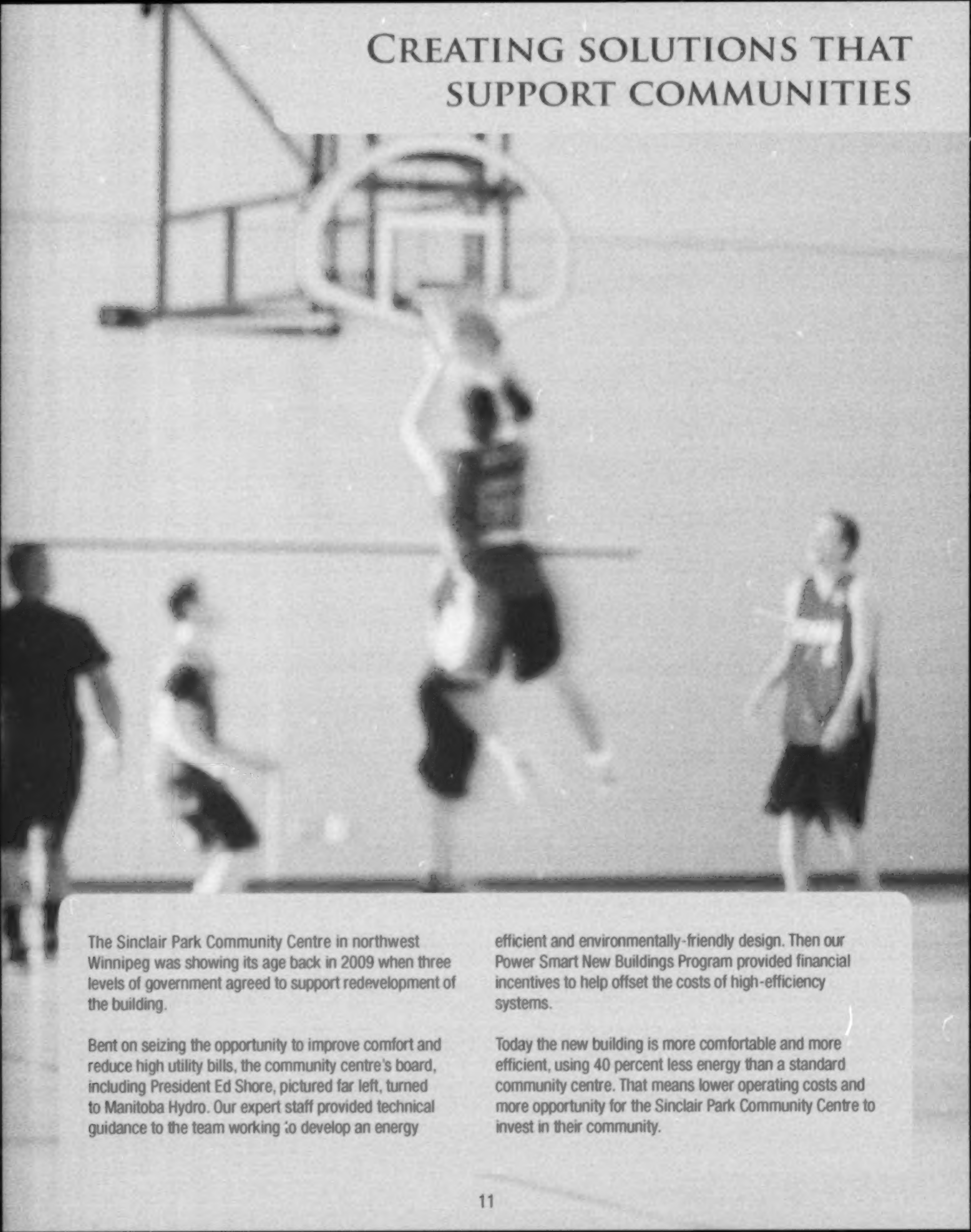
The 2007 discovery of the Lalor metal deposit close to Snow Lake was timely for HudBay. With their nearby Chisel North mine winding down, the new find promised a big boost to the company's zinc and gold production. Plus, the new mine would mean jobs for nearly 350 people.

To provide power for developing Lalor, HudBay turned to Manitoba Hydro. We completed a power load study identifying the electricity infrastructure requirements. Then, on behalf of HudBay, we built a four-kilometre 25-kilovolt line to the Lalor site, which included a fibre optic communication link. In March, we also completed a new transmission link to the mine's future substation.

"Having adequate power is critical to the development of a mine site," said Kim Proctor, Project Manager of the Lalor development. "Manitoba Hydro was able to deliver that power where we wanted it, when we needed it."



CREATING SOLUTIONS THAT SUPPORT COMMUNITIES

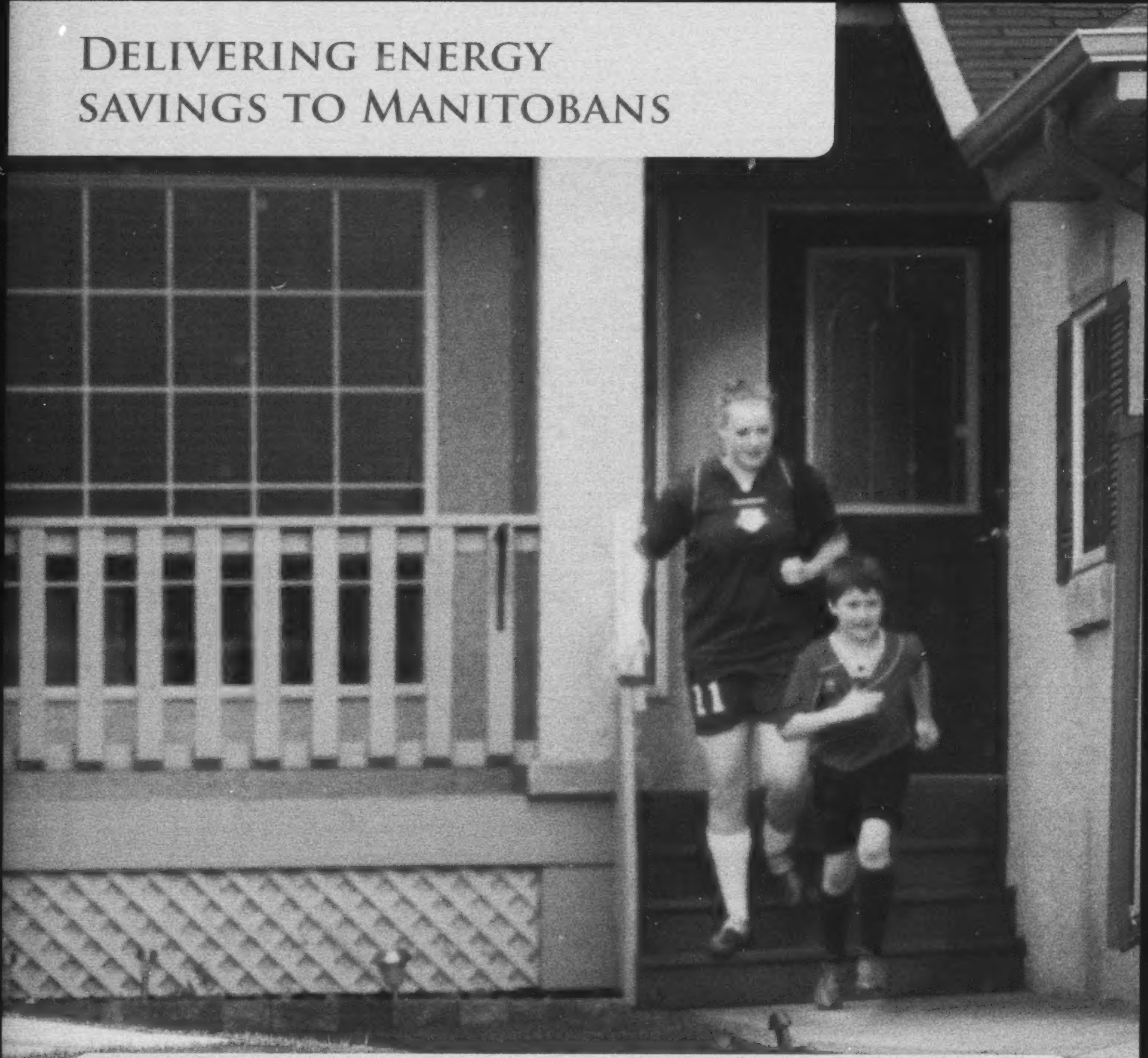


The Sinclair Park Community Centre in northwest Winnipeg was showing its age back in 2009 when three levels of government agreed to support redevelopment of the building.

Bent on seizing the opportunity to improve comfort and reduce high utility bills, the community centre's board, including President Ed Shore, pictured far left, turned to Manitoba Hydro. Our expert staff provided technical guidance to the team working to develop an energy efficient and environmentally-friendly design. Then our Power Smart New Buildings Program provided financial incentives to help offset the costs of high-efficiency systems.

Today the new building is more comfortable and more efficient, using 40 percent less energy than a standard community centre. That means lower operating costs and more opportunity for the Sinclair Park Community Centre to invest in their community.

DELIVERING ENERGY SAVINGS TO MANITOBANS



With three children active in sports, Andrew and Shannon Balfour were very aware of how much hot water their household consumed. Long showers had, in fact, been the subject of more than one family discussion.

So, when Andrew heard about the free Power Smart Water and Energy Saver kit available from Manitoba Hydro, he didn't hesitate. Installing the two low-flow showerheads and faucet aerators as well as wrapping their water heater pipe with the provided insulation took only 20 minutes.

Within seven months the Balfour family saw a cumulative saving of over $150 on their electricity bills and reduced their water usage by about 25 percent. "It's the best return on effort you could ask for," said Andrew. "It's so simple and it's had a huge effect on our electricity and water bills."

OUR YEAR IN REVIEW

HIGHLIGHTS

Announced decision to develop, pending necessary approvals, the 695-megawatt Keeyask Generating Station.

Placed all three turbine runners and generator rotors into final position at the 200-megawatt Wuskwatim Generating Station.

Completed Wuskwatim transmission complex connecting the new generating station to Manitoba Hydro's network.

Earned $61 million in net income for the 2011-12 fiscal year reflecting an unusually mild, dry winter and lower spot market prices for electricity exports.

Filed environmental impact statement for Bipole III 500-kilovolt high voltage direct current transmission line.

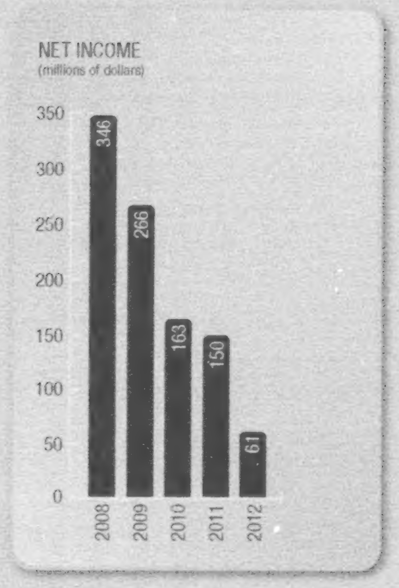
Signed agreement to purchase power from 16.5-megawatt expansion of St. Leon Wind Farm.

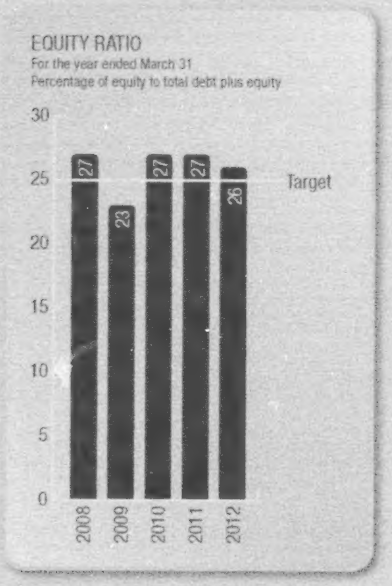
Launched new Power Smart Refrigerator Retirement Program.

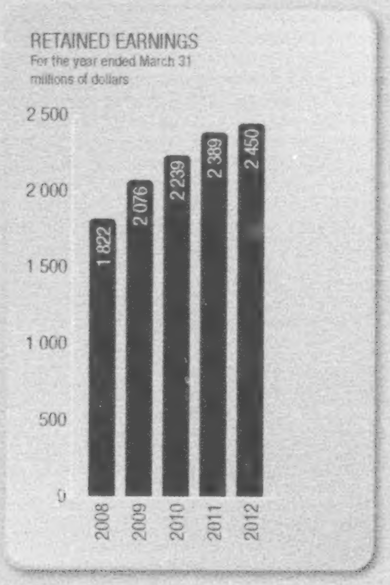
Named one of Canada's Top 100 employers and one of the nation's greenest employers.

FINANCIAL RESULTS

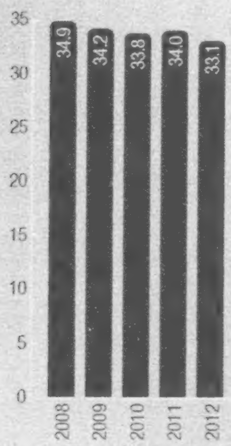
	Electricity		Natural Gas		Consolidated		Change
Revenue	2012	2011	2012	2011	2012	2011	
			millions of dollars				
Manitoba	1 210	1 218	329	404	1 539	1 622	(83)
Extraprovincial	363	398	-	-	363	398	(35)
	1 573	1 616	329	404	1 902	2 020	(118)
Cost of gas sold	-	-	197	261	197	261	(64)
Expenses	1 506	1 473	138	136	1 644	1 609	35
Net income	67	143	(6)	7	61	150	(89)
Retained earnings	2 416	2 349	34	40	2 450	2 389	61


NET INCOME
(millions of dollars)

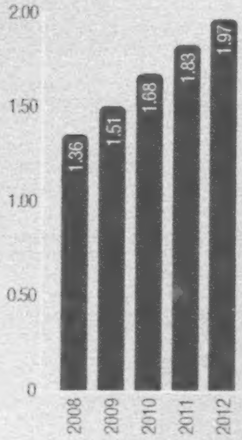

EQUITY RATIO
For the year ended March 31
Percentage of equity to total debt plus equity


RETAINED EARNINGS
For the year ended March 31
millions of dollars

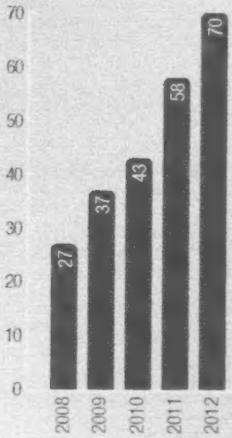
OUR YEAR IN REVIEW



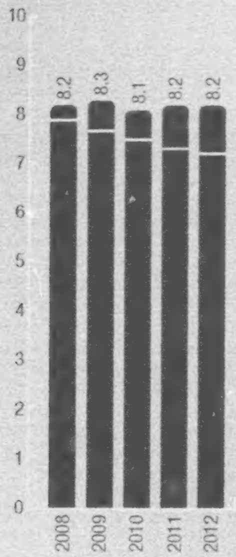
TOTAL HYDRAULIC GENERATION
For the year ended March 31
(billions of kilowatt hours)



POWER SMART SAVINGS - ELECTRICITY
For the year ended March 31
(billions of kilowatt hours)

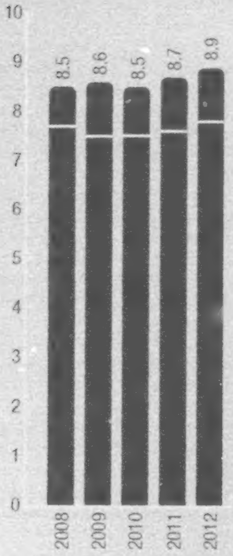


POWER SMART SAVINGS - NATURAL GAS
For the year ended March 31
(millions of cubic metres)



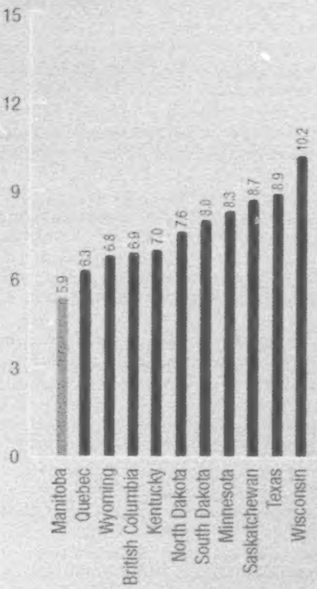
CUSTOMER SATISFACTION
WITH OVERALL SERVICE
(Source: MH quarterly customer satisfaction tracking study)

CEA average for all Canadian electric utilities



CUSTOMER SATISFACTION
WITH SYSTEM RELIABILITY (electricity)
(Source: MH quarterly customer satisfaction tracking study)

CEA average for all Canadian electric utilities



RETAIL PRICE OF ELECTRICITY
cents/kWh (Cdn)

OPERATING STATISTICS

Electrical Operations	2012	2011	Increase/(Decrease)
Sales		*billions of kilowatt hours*	
Manitoba sales	20.8	20.8	-
Extraprovincial sales	10.2	10.3	(0.1)
System supply		*billions of kilowatt hours*	
Generation	33.3	34.1	(0.8)
Purchases	1.2	0.6	0.6
		thousands of kilowatts	
Manitoba peak load	4 343	4 261	82

Natural Gas Operations	2012	2011	Increase/(Decrease)
		millions of cubic metres	
Residential sales	509	591	(82)
Commercial and industrial sales	728	821	(93)
	1 237	1 412	(175)
Transportation service	629	584	45
	1 866	1 996	(130)
		billions of joules	
Manitoba peak load	500 434	489 283	11 151

OUR SERVICE

Manitoba Hydro provides electricity to over 542 000 customers throughout Manitoba and natural gas service to over 267 000 customers, primarily in southern Manitoba. We are an industry leader in customer satisfaction, offering a high level of service and among the lowest energy rates in North America. We also aggressively promote energy conservation through a multitude of Power Smart programs. Our investment of $38 million in 2011-12 helped produce 1 966 kilowatt hours of electricity savings and 70 million cubic metres of natural gas savings – reducing our customers energy costs by a combined $86 million.

New dispatch system to improve response times

Manitoba Hydro launched a new dispatch system in January that centralizes work planning, scheduling and assignment for all electric and natural gas service staff in Winnipeg. Initially used by natural gas operations in Winnipeg, the Mobile Workforce Management System wirelessly sends work orders to staff already in the field based on location, driving time, work priority and the skills required.

By more effectively allocating resources, the system is expected to improve response times and operational efficiencies of field work ranging from furnace inspections to no power calls. The expansion of Mobile Workforce Management to all electric and natural gas operations throughout the province is expected to be completed by the end of 2012-13.

Making electricity more affordable in diesel communities

During the past fiscal year, Manitoba Hydro continued to improve the efficiency and affordability of electrical service in four off-grid northern communities served by diesel generators.

In November 2011, the previous tail block rate of 35 cents per kilowatt hour applied to energy use exceeding 2 000 kilowatt hours per month was removed for residential customers in Lac Brochet, Brochet, Tadoule Lake and Shamattawa. Residents in these communities now pay the same rates as all other Manitobans.

Manitoba Hydro is also helping residents in off-grid communities further reduce their energy bills, and increase comfort, through the First Nations Power Smart Program. Seventy-one homes received insulation

Left: Brent Wyatt, District Lead, God's Lake Narrows.

and basic energy efficiency upgrades such as caulking, faucet aerators, compact fluorescent lights and low flow showerheads in 2011-12. Of the 396 homes upgraded in First Nations communities since the program began, 91 are located in off-grid communities.

Residential program changes promote energy efficiency upgrades

In October 2011, the Province of Manitoba and Manitoba Hydro announced changes to residential Power Smart programs to complement the federal EcoENERGY Program and encourage Manitobans to upgrade the energy efficiency of their homes. The changes included a reduction in the interest rate for the Power Smart Residential Loan, a reduction in the cost of the pre-retrofit evaluation required by the EcoENERGY program and up to an additional $1 000 in Power Smart grants available to participants in the EcoENERGY program.

Over 8 000 pre-retrofit evaluations were completed in less than eight months and more than 4 000 customers qualified for an average $1 300 in combined federal and Power Smart grants.

Refrigerator Retirement Program launched

In its first year, the Power Smart Refrigerator Retirement Program collected approximately 8 900 old, inefficient refrigerators from Manitoba households. Launched in June 2011, the program provides residential customers with free in-home pick up of old refrigerators or freezers and a $40 incentive for each appliance retired.

An estimated 35 000 refrigerators are expected to be retired over the life of the program reducing electricity consumption by approximately 30 million kilowatt hours – the same amount of energy used by the town of Neepawa in one year.

Helping customers save

During the last fiscal year a wide range of customers improved the energy efficiency of their operations and reduced energy costs using Manitoba Hydro's commercial and industrial Power Smart programs.

McCain Foods Canada in Portage la Prairie, for example, installed an energy recovery system on their potato processing line with assistance from the Power Smart Natural Gas Optimization Program. By using a heat exchanger to recover heat from the processing line and preheat incoming water, the system is expected to reduce McCain Foods' natural gas consumption by 600 000 cubic metres per year – equivalent to the average annual consumption of 250 residential customers.

The Natural Gas Optimization Program also helped Providence College and Seminary in Otterburne install a biomass heating system that uses waste wood. The new system will eventually replace all of the natural gas-fired space heating and domestic hot water applications on the campus. As a result, the college expects to reduce their natural gas consumption by 200 000 cubic metres per year.

The Health Sciences Centre in Winnipeg worked with Manitoba Hydro to complete an extensive fan and pump efficiency upgrade in the last year. A total of 94 motors in several buildings on the Health Sciences campus were upgraded with variable speed drive control technology during the multi-year project. Manitoba Hydro provided financial incentives through the Performance Optimization Program and technical assistance during the feasibility and implementation phases. The combined energy savings will total more than 3.2 million kilowatt hours per year – equivalent to the annual energy used by 320 residential customers.

Natural gas customers benefit from lower prices

Natural gas prices across North America continued to decline over the last fiscal year, reaching their lowest levels in 13 years. Manitoba Hydro is passing those low prices on to its natural gas customers and they are enjoying significant financial savings as a result. The total annual natural gas bill for a typical residential customer in Manitoba is now 30 percent lower than in 2002. From April 1, 2011 to April 1, 2012, residential natural gas rates declined by 14 percent or the equivalent of a $128 saving annually for a typical customer.

Electricity rates lowest in North America

In April 2011, Manitoba Hydro implemented a two percent overall electricity rate increase. The increase was granted by the Manitoba Public Utilities Board after a lengthy review of the corporation's General Rate Application. The corporation's electricity customers continue to enjoy the lowest rate structure in North America.

Staff part of the flood fight in 2011

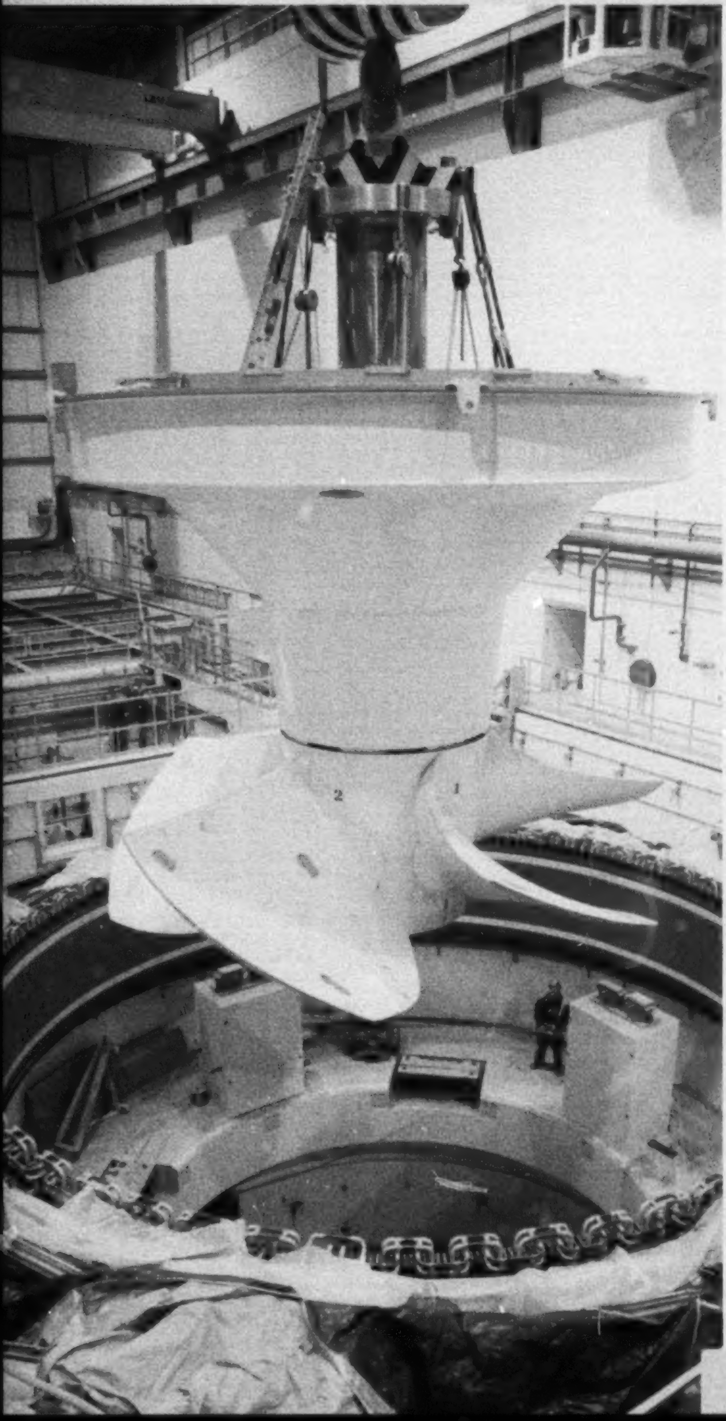
The spring and summer of 2011 saw extraordinary flooding across much of Manitoba, particularly in the Assiniboine and Souris river basins and around Lake Manitoba. Throughout the event, Manitoba Hydro worked with local governments, emergency management organizations and the Canadian Forces to maintain vital electrical service to customers as well as provide clearances and safety watches for evacuated buildings. Staff also built or elevated existing dikes to protect critical power equipment including the Brandon Generating Station and Cornwallis Transmission Station along the Assiniboine River and the Letellier Transmission Station in the Red River valley.

Opposite: Manitoba Hydro crews work to widen and increase the height of a dike protecting the Cornwallis Transmission Station and the Brandon Generating Station from the rising Assiniboine River in May 2011.

MUSTANG

OUR RESOURCES

Nearly all the electricity Manitoba Hydro produces is generated at 14 hydroelectric generating stations. We also maintain two small thermal generating stations and four remote diesel generating stations. Additional power is purchased from two independent wind farms at St. Leon and St. Joseph. In the last fiscal year, Manitoba Hydro invested $590 million in projects to ensure we continue to reliably and affordably meet our customers' energy needs.



Wuskwatim Generation Project nears completion

Construction of the 200-megawatt Wuskwatim Generating Station neared completion in 2011-12. The last of the concrete was placed and the main earth dam finished allowing the water level in the forebay immediately upstream of the station to be raised to near operating levels.

Inside the powerhouse, all three turbine runners and generator rotors were positioned with the wicket gates, head covers and other associated equipment installed. Substantial progress was also made on installation of the required electrical and mechanical support systems. Commissioning of the generating station is underway and the first unit is expected to begin operating by early summer 2012.

Total project hires from August 2006 to March 2012 was 5 832. Approximately 37 percent of these hires were Aboriginal and 65 percent were from Manitoba.

The Wuskwatim Power Limited Partnership – a partnership involving Manitoba Hydro and the Nisichawayasihk Cree Nation – is developing the project on the Burntwood River approximately 45 kilometres southwest of Thompson. This is the first partnership in Canada involving a First Nation and an energy utility for development of a major generating station.

Left: The last of the Wuskwatim Generating Station's three turbine runners — weighing nearly 150 tonnes — is lifted into place in November 2011.

Keeyask Generating Station goes forward

In June 2011, Manitoba Hydro announced the decision, subject to necessary approvals, to develop the 695-megawatt Keeyask Generating Station in partnership with the four Keeyask Cree Nations – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation. The project description was filed with the federal Major Projects Management Office in July and the Environmental Act Proposal Form was filed with Manitoba Conservation in December. The environmental impact statement is expected to be submitted in the summer of 2012.

At the end of the fiscal year, preliminary engineering was nearly complete with detailed design to follow. Construction of the generating station is scheduled to start in June 2014, pending regulatory approvals, at a site on the Nelson River approximately 175 kilometres northeast of Thompson. The expected in-service date for the project is 2019.

To optimize employment, training and business opportunities for the Keeyask Cree Nations, and to minimize the risk of delays, a separate infrastructure agreement was negotiated enabling an early start to construction of an access road and the first phase of the main construction camp. Work on this Keeyask Infrastructure Project began in early 2012 after a Manitoba Environmental Act license was received.

Power sales to Minnesota and Wisconsin announced

In May 2011, Manitoba Hydro announced signed agreements for a 250-megawatt sale of electricity to Minnesota Power and a 100-megawatt sale to Wisconsin Public Service. Combined with a previously completed sale to Xcel Energy and a 125-megawatt deal with Northern States Power, the value of these sales is an estimated $7 billion.

The agreement with Minnesota Power includes the sale of firm power between 2020 and 2035. The Wisconsin Public Service agreement includes the sale of surplus energy from 2012 until 2021 and the sale of firm power from 2021 to 2027.

Forecasts show new sources of power are required for Manitoba customers by about 2021. Through these sales, Manitoba Hydro is capitalizing on the demand for hydroelectricity that already exists outside of the province and helping to reduce the costs of building new generation capacity – such as the Keeyask Generating Station – for Manitoba ratepayers.

The corporation continues to explore an additional 400-megawatt sale with Wisconsin Public Service as well as other potential sales that will confirm an in-service requirement for the proposed Conawapa Generating Station.

Conawapa Generating Station preparations continue

Engineering, environmental and public consultation activities continued throughout the fiscal year for the proposed 1 485-megawatt Conawapa Generating Station. A formal planning process with communities in the vicinity of the proposed generating station, including Fox Lake Cree Nation, York Factory First Nation, the Cree Nation Partners (Tataskweyak Cree Nation and War Lake First Nation) and Shamattawa First Nation, is also underway.

The Province of Manitoba and Manitoba Hydro signed a Memorandum of Understanding with Fox Lake Cree Nation in 2004 recognizing that Fox Lake will have a leading and significant role in the planning process for the Conawapa Project because of its proximity to the community.

The Conawapa Generating Station would be built on the Nelson River about 320 kilometres northeast of Thompson in the Fox Lake Resource Management Area. The earliest Conawapa could be in-service is 2025.

St. Leon Wind Farm expands

In July 2011, Manitoba Hydro signed a 25-year agreement with Algonquin Power to purchase the output of a 16.5-megawatt expansion to the St. Leon Wind Farm. The 10 turbines will enter service early in the 2012-13 fiscal year, bringing St. Leon's total output to 116.4 megawatts. Manitoba Hydro also purchases energy from the 138-megawatt St. Joseph Wind Farm developed by Pattern Energy.

Rerunnering continues at Kelsey Generating Station

Unit Four at the Kelsey Generating Station returned to service in August 2011 after rewinding, modifications to the draft tube and the installation of a new turbine runner. The work increased the capacity of the turbine generator from 34 megawatts to 45 megawatts.

This was the fifth of the generating station's seven units to be rehabilitated. When the final two units are completed in late 2014, Manitoba Hydro expects the $295 million project will increase the total output of the station by approximately 77 megawatts.

OUR RELIABILITY

Manitoba Hydro delivers electricity to customers using nearly 90 000 kilometres of transmission and distribution lines. We also maintain over 9 000 kilometres of natural gas distribution pipeline serving nearly 100 communities. In the past fiscal year, Manitoba Hydro invested $479 million toward maintaining a secure and dependable delivery system.

Bipole III environmental impact statement filed

The environmental impact statement for the new Bipole III high voltage direct current transmission project was filed with Manitoba Conservation in December 2011. Additional information was filed mid-February 2012 including a minor adjustment of the final preferred route near Tourond in southern Manitoba and the preferred route for the Riel Converter Station electrode line.

Bipole III will significantly strengthen the reliability of Manitoba Hydro's critical high voltage direct current system. The $3.3 billion project includes a new 1 384-kilometre long 500-kilovolt direct current transmission line and two new converter stations – Keewatinoow, northeast of Gillam and Riel, east of Winnipeg. These new facilities will provide important diversity to the system reducing dependency on the Dorsey Converter Station and the existing high voltage direct current system which delivers over 70 percent of Manitoba Hydro's generating capacity to southern Manitoba.

In 2008, Manitoba Hydro initiated a Site Selection and Environmental Assessment process to select a route for the Bipole III transmission line, including four rounds of public and stakeholder consultations. As part of this process, Manitoba Hydro engaged Aboriginal communities and incorporated Aboriginal perspectives, including traditional knowledge, into the planning and Site Selection and Environmental Assessment process. As a result, the initial selection of the route was influenced by Aboriginal traditional knowledge related to culturally significant sites, plants and resource areas.

Left: Crews build a new foundation for a tower that is part of Manitoba Hydro's 500-kilovolt transmission interconnection to the United States using screw pile technology.

Public hearings on the project by the Clean Environment Commission are scheduled to begin in the fall of 2012. Construction is scheduled to begin primarily in the north, pending regulatory approval, in the winter of 2012-13.

Wuskwatim transmission complex completed

The final section of a 230-kilovolt transmission line linking the Wuskwatim Generating Station to Manitoba Hydro's transmission network was completed in May 2011. The 165-kilometre line runs from Herblet Lake Station near Snow Lake to The Pas Ralls Island Station. Two 137-kilometre transmission lines from Wuskwatim to Herblet Lake were completed in March 2010 and a 45-kilometre transmission line from Wuskwatim to Thompson Birchtree Station was completed in 2007.

The five-year project also included extensive modifications to existing stations at The Pas Ralls Island, Herblet Lake and Thompson Mystery Lake as well as construction of two new high voltage stations at Wuskwatim and near Thompson at Birchtree. Along with connecting Wuskwatim, the new facilities will improve the overall reliability of Manitoba Hydro's northern 230-kilovolt transmission system.

New station will protect import capability

Construction continued on a new terminal station that will sectionalize an existing 500-kilovolt transmission line between the Dorsey Converter Station and the Forbes Station in Minnesota.

The new terminal, at the future site of the Riel Converter Station, will create an alternate point on the line where electricity imported from the United States can be injected into southern Manitoba's 230-kilovolt transmission system. By protecting Manitoba Hydro's ability to import power, the station will improve the reliability of the province's electricity supply.

Dorsey to Forbes transmission tower foundation replacements

This past winter Manitoba Hydro replaced over a quarter of the foundations for steel towers on the 500-kilovolt transmission line between Dorsey and the Forbes Station in Minnesota. After 32 years the concrete deterioration on the original foundations was beginning to pose a risk to this vital interconnection that can deliver over 1 000 megawatts of electricity to the United States.

From January to March, crews anchored 114 towers to new foundations consisting of helical piles and a steel frame. All work was done with the towers in place and the line energized. Approximately 330 towers remain on their original foundations and will be closely monitored.

Burrows showcases new design for urban distribution stations

In March 2012, the first switchgear was installed at the new Burrows Distribution Station in Winnipeg. Replacing two stations that reached capacity, the Burrows station is one of many planned for Winnipeg and the first to use a new style intended to blend into existing neighbourhoods.

The design features an unobtrusive low profile masonry wall, uses underground cable instead of overhead wires and is the first Manitoba Hydro installation with transformer banks placed below ground level. All these details improve safety and reduce the visibility of the station's equipment to area residents. The Burrows Station is scheduled for completion in the fall of 2012.

Building a smarter grid

Manitoba Hydro began testing new technologies on its electricity distribution system in 2011-12 which provide increased monitoring capability and improved operational response to outages.

Over 50 intelligent fault current indicators were installed on four of the corporation's distribution lines. These devices detect fault currents and immediately communicate the event to a central location. By using several of the devices on a line, the likely location of a fault can be deduced, helping to speed restoration times.

Another study involved the installation of 47 solar powered, portable ammeters. These provide hour-by-hour electric load readings from critical elements of the distribution system. This information can be used to optimize operation of the network. If a primary supply line were to fail, for example, the ammeters allow staff to quickly and accurately identify whether an alternate supply line could carry the additional load, potentially avoiding a lengthy outage to customers.

Maintaining gas pipeline integrity

Approximately 30 percent of the corporation's natural gas distribution network, including all pipes functioning at pressures above 275 pounds per square inch, was surveyed for leaks in the past fiscal year. The effectiveness of corrosion control protection was verified on another 12 percent of pipes.

While public awareness programs, such as Call Before You Dig, help protect Manitoba Hydro's pipelines from excavation activities, the corporation also maintains the integrity of its gas network through various surveys to detect leaks, monitor pipe and pipe coating conditions and measure ground cover. The information gathered through these surveys and other studies enables Manitoba Hydro staff to identify and address issues before they impact the reliability and safety of natural gas delivery.

High voltage test facility opens doors

Manitoba Hydro completed a new high voltage test facility in early 2012 that will help prevent costly equipment failures. One of only four in Canada, the test facility will evaluate new equipment, such as extra high voltage transformers or bushings, to ensure operational standards are met and identify any damage incurred during delivery. It can also be used to determine if aged equipment is suitable for reuse. This will help to prevent in-service failures which can create potential safety hazards and result in millions of dollars in lost revenue and maintenance costs.

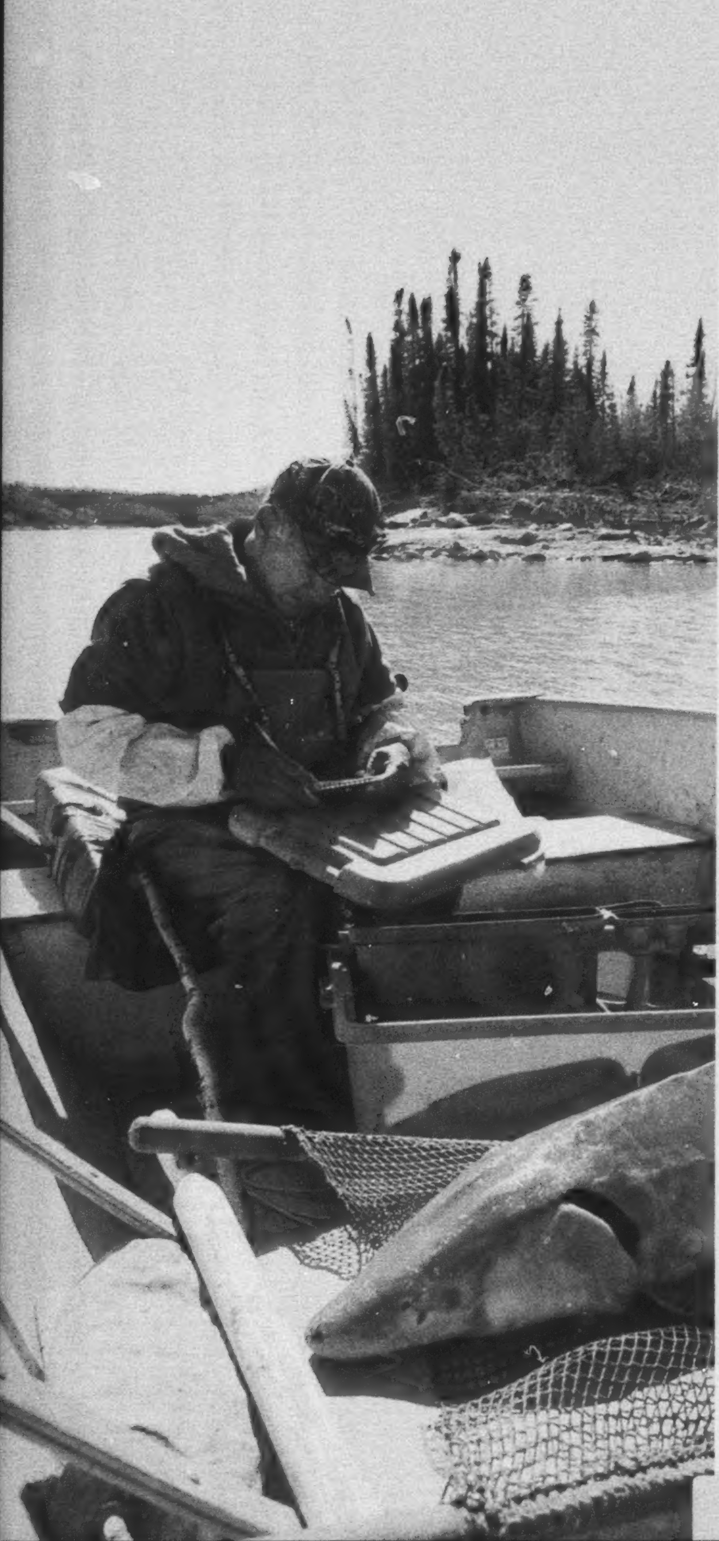
The high voltage test facility in south Winnipeg features a 10-tonne crane, a reinforced concrete floor designed to support Manitoba Hydro's largest power transformer – which weighs more than 350 tonnes – and a dedicated rail spur that enters the high voltage hall through a 12-metre by 12-metre door.

In addition to meeting the corporation's needs, the facility can also provide commercial high voltage testing services to manufacturers and unique research opportunities for universities.

Opposite: Equipment in Manitoba Hydro's new high voltage test facility can create lightning impulses up to 2.2 million volts and direct voltage testing up to ±1.2 million volts.

OUR ENVIRONMENT

Manitoba Hydro incorporates environmentally responsible practices into all aspects of our business, including the planning and construction of new generation, transmission and distribution facilities. In the last fiscal year, we were recognized by the editors of Canada's Top 100 Employers as one of the nation's greenest employers.



Halon replacement completed

The last of the corporation's Halon fire suppression systems were removed from service in the past year and replaced with water sprinkler systems. First introduced as a gas fire suppression agent in the 1960s, Halon 1301 was later linked to a number of environmental concerns including depletion of the ozone layer. It had been used to protect vital equipment in Manitoba Hydro's hydroelectric generating stations, transmission stations, high voltage direct current converter stations and other corporate facilities.

Hatchery improving aquaculture techniques

The Grand Rapids Hatchery, owned by Manitoba Hydro since 2007, produced about 5 500 lake sturgeon fingerlings in September 2011. Five thousand of these fish were released into the Nelson River near the Jenpeg Generating Station in October. The remaining 500 will be held in the hatchery until the fall of 2012 as part of ongoing research to better understand and improve growth rates of lake sturgeon.

The hatchery is operated in part to sustain native fish species biodiversity, including lake sturgeon, and is a base for research aimed at improving aquaculture techniques and conservation stocking of native species.

Roughly 1.5 million pickerel were also reared at the hatchery, tagged and stocked into Southern Indian Lake in the last year as part of a study to understand the contribution of hatchery reared pickerel to the Southern Indian Lake population.

Left: Alex Garrioch of Cross Lake First Nation collects information on a sturgeon from the Nelson River as part of research supported by Manitoba Hydro to promote effective management and recovery of existing sturgeon populations.

A system-wide approach to aquatic monitoring

March 2012 marked the end of the fourth year of operation for the Coordinated Aquatic Monitoring Program (CAMP). A partnership between Manitoba Hydro and the Province of Manitoba, the program is a response to many factors, including feedback from Aboriginal communities and government regulators received during the environmental review of the Wuskwatim Generation Project.

The objective of CAMP is to monitor key ecological components, such as water quality and fish communities, in all water bodies affected by Manitoba Hydro operations. Over time, these ecological data will be analyzed to correlate the effects of water management and the health of the aquatic environment.

Support for green community initiatives

Manitoba Hydro's Forest Enhancement Program was recognized with the 2012 Proud to be Green Award from Landscape Manitoba for promoting and preserving green spaces and raising awareness of environmental sustainability. Since it was launched in 1995, the program has funded over 900 projects to enhance urban forests and support forest education. Twenty eight projects received support in 2011, including an initiative by the Broadway Neighbourhood Centre in Winnipeg's downtown to create a family-friendly park, complete with trees, for area residents.

Over 30 community-based education projects also received support from the corporation's Environmental Partnership Fund in 2011. One such project is the Adopt a River Program. Implemented by Save Our Seine, the program provides students with the opportunity to learn more about the characteristics and health of the Seine River and take first steps to becoming stewards of a section of the river. Established in 1993, the Environmental Partnership Fund provides one-time or multi-year contributions to support the development and implementation of environmental education projects with a sustainable development focus.

One of Canada's greenest employers

In March 2012, Manitoba Hydro was chosen as one of Canada's greenest employers by the editors of Canada's Top 100 Employers project. The designation recognizes employers that lead the nation in creating a culture of environmental awareness within their organization.

Reasons given for Manitoba Hydro's selection include the corporation's state-of-the-art energy efficient head office building, the greening of its vehicle fleet through the purchase of 28 hybrid cars and the various programs at work to address the operational impacts of hydroelectric facilities.

OUR SAFETY

Instilling a culture of safety among our employees continues to be a priority for Manitoba Hydro, as does promoting the protection of our customers. In the past year, we actively encouraged safe practices around our facilities through ongoing education and awareness initiatives.

Educating young people about safety

Manitoba Hydro continued to promote awareness of electric and natural gas safety to young people over the past year. Local employees made presentations to over 14 000 grade four, five and six students as part of the long running Youth Safety Program. School bus safety workshops were also held in Winnipeg, Portage la Prairie and Holland to educate students and bus drivers about the importance of providing safe exit in the event of an accident involving downed power lines. An additional 2 000 students in eight rural communities took part in workshops with a focus on agricultural safety awareness.

Louie the Lightning Bug, the corporation's safety mascot, marked 25 years with Manitoba Hydro in 2011. Louie made appearances at various festivals and parades throughout the summer to deliver safety messages, including the Teddy Bears' Picnic in Winnipeg, the Carman Country Fair and York Boat Days in Norway House. He is also spokesbug for the Play it Safe Club which promotes safety to children between the ages of three and 10 through club newsletters and special events. The club has nearly 7 000 members across Manitoba.

Highlighting a common farm hazard

With agricultural activity accounting for over 25 percent of all public electrical contacts, farm safety continues to be a priority for Manitoba Hydro. To encourage farm customers to bury overhead power lines in their yards, the Go Underground Program provides discounts of 50 percent off the installation cost up to a maximum of $10 000. In the last fiscal year, 24 customers took advantage of this program.

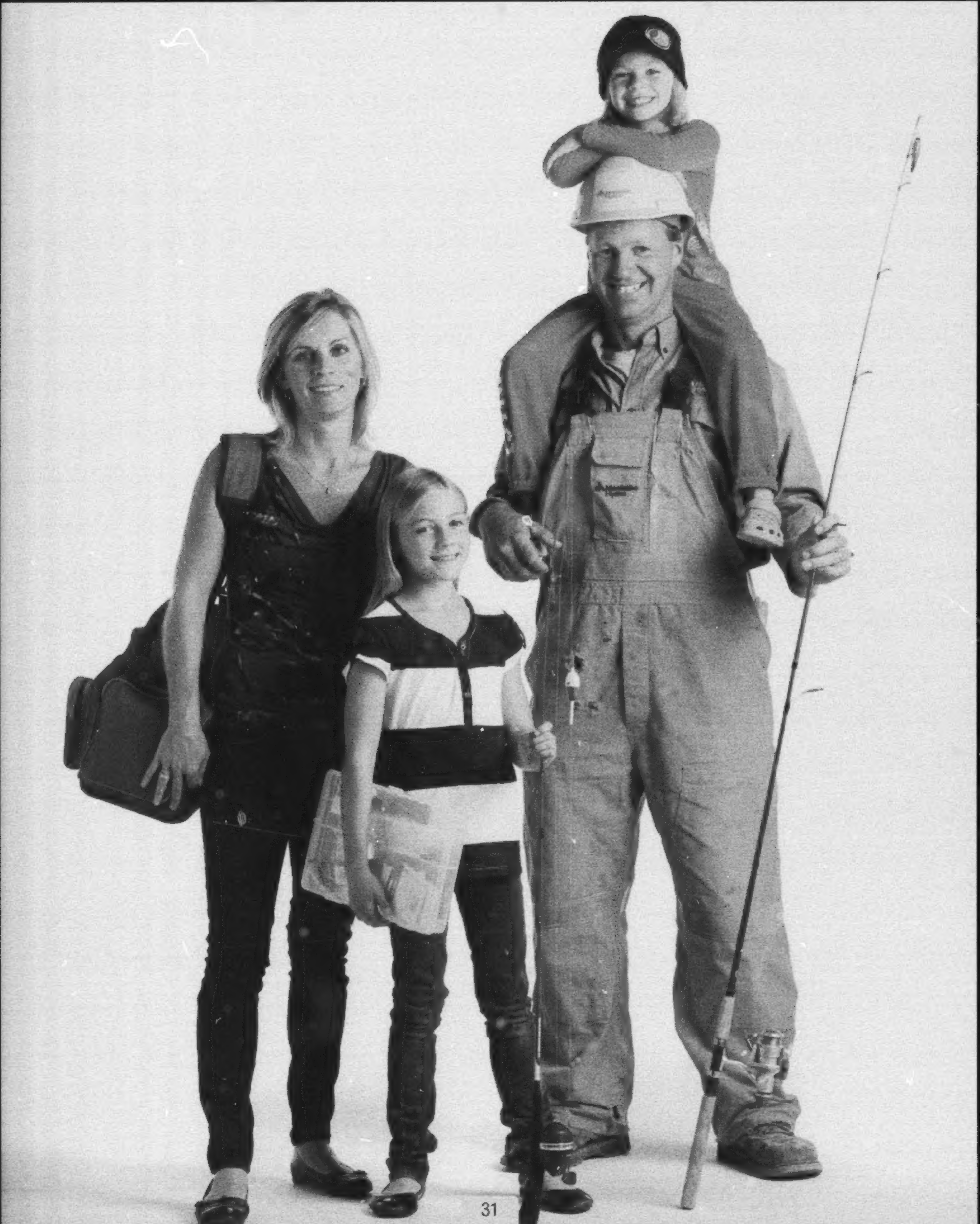
The corporation's Farm Safety Program also promoted awareness of the potential hazards associated with moving large machinery under power lines – and the importance of obtaining an agricultural equipment move permit – using billboards, posters as well as public service announcements on radio and television.

Employee inspired campaign promotes safety

An internal safety awareness campaign aimed primarily at Manitoba Hydro's customer service field staff was launched in December 2011. The key message of the campaign – everything you care about, starts with safety – was inspired by employee responses to the question: what is your motivation to practise safety at work and at home?

A number of communication pieces were created to promote this message, including calendars, monthly posters and regular articles in the corporation's internal newsletter, that feature individual employees and their reasons for working safe. This material will be distributed to Manitoba Hydro's offices across the province throughout 2012.

Opposite: Greg Rempel, Construction Inspector, stands with his reasons for working safe — his wife, Tammy, and their two daughters. Greg was one of the Manitoba Hydro employees featured in an internal safety awareness campaign intended to encourage staff to consider their own motivations for working safely.



OUR RELATIONSHIPS

Manitoba Hydro continues to foster productive relationships with our customers, employees and other stakeholders, including Aboriginal communities. We also strive to be an outstanding corporate citizen, supporting community activities across the province and encouraging the volunteer efforts of our employees.

Washington forum promotes Canadian hydropower

In December 2011, Manitoba Hydro and the Canadian Hydropower Association hosted a forum at the Canadian Embassy in Washington promoting hydropower as part of the solution for meeting current and future energy needs in the U.S. Joining Manitoba Hydro representatives were Chief Jerry Primrose of Nisichawayasihk Cree Nation and Chief Betsy Kennedy of War Lake First Nation.

Last July, Wisconsin passed legislation that lifted a cap on the size of hydroelectric facilities qualifying for that state's renewable portfolio standard. Now electricity generated by stations over 60 megawatts that came into service after 2010 – including the Wuskwatim Generating Station and the future Keeyask Generating Station – can be counted toward meeting Wisconsin's renewable energy targets.

Strengthening relationships with Aboriginal peoples

Manitoba Hydro continued to strengthen relationships with Aboriginal peoples in the past fiscal year through ongoing programs as well as new agreements and business opportunities.

Fifty-year agreements providing annual support to the Misipawistik Cree Nation and the Mosakahiken Cree Nation were signed in October 2011 and December 2011 respectively. The support is directed toward community based programming, economic development and other endeavours that will directly benefit the membership of the Cree Nations.

Left: Manitoba Hydro was a proud sponsor of the 43rd annual Festival du Voyageur in Winnipeg which kicked off with the Torch Light Walk at the Forks in February 2012.

Two hundred and forty commercial fishers from Moose Lake were provided individual offers of settlement in December 2011, addressing past, present and future personal property and commercial income loss arising from the Grand Rapids Project.

As part of an effort to foster business relationships with Aboriginal companies, Manitoba Hydro uses procurement strategies and policy to create business opportunities for Aboriginal enterprises. These strategies include restricted tendering or creation of smaller custom work packages to suit the business capacities of a community in proximity of the work. Of the $359 million in contracts awarded to Manitoba companies in the 2011-12 fiscal year, $62 million was awarded to Manitoba Aboriginal companies.

During the 2011 season, 18 boat patrol crews travelled over 148 000 kilometres as part of Manitoba Hydro's Waterways Management Program. Since 2004, the program has enhanced the safety of northern waterways with its Safe Travel Routes, Debris Management and Boat Patrol initiatives. Aboriginal people from northern Manitoba are employed from June to October to monitor rivers and lakes in the Saskatchewan, Burntwood, Churchill and Nelson River systems.

Employing a skilled and diverse workforce

Over the past fiscal year, Manitoba Hydro continued efforts to employ a skilled workforce that reflects the diversity of our province.

The corporation's Northern and Southern Aboriginal Pre-placement training programs, and the Aboriginal Line Trades Pre-placement Program, hired a combined 31 new trainees in the fiscal year. These training programs provide on-the-job training, academic upgrading and mentorship opportunities to help Aboriginal candidates acquire the skills and competencies needed to successfully transition into Manitoba Hydro's technical trades training program. In the past year, 28 candidates successfully completed their pre-placement training and were selected for Power Electrician, Operating Technician or Power Line Technician training programs.

Manitoba Hydro also continued to work with the University of Manitoba's Internationally-Educated Engineers Qualification Program to support engineers who have trained abroad and aspire to fulfill the academic requirements of the Association of Professional Engineers and Geoscientists of Manitoba. Since 2004, the corporation has awarded two $1 500 bursaries a year to students enrolled in the program. Last year, two graduates of the University's program were hired permanently into Manitoba Hydro's Internationally-Educated Engineer Career Development Program and five students accepted four-month co-operative work terms.

In 2011, the Educational Funding Program presented 60 individual awards valued at over $150 000 to high school, college and university students. The program supports continued education in areas applicable to work at Manitoba Hydro by offering awards, bursaries and scholarships. For example, to qualify for one of the eight $10 000 Generating Futures Scholarships, students needed to be registered in engineering, business, information technology or other technology programs connected to occupations in high demand by the corporation.

Supporting communities throughout the province

Manitoba Hydro continued to support community events throughout the province in 2011-12 and the corporation's employees were once again celebrated for their willingness to give back.

Canadian Blood Services recognized Manitoba Hydro as their most productive corporate partner across the Prairies for 2011, with the corporation's employees donating 833 units of blood during the year. Manitoba Hydro has been a mobile partner with Canadian Blood Services for 20 years and a registered partner with the Partners for Life program since 2001.

The corporation helped bring live theatre and music to communities across Manitoba through sponsorship of the Prairie Theatre Exchange's (PTE) Theatre for Young Audience's Tour and the Winnipeg Symphony Orchestra's (WSO) Power Smart Holiday Express Tour. Approximately 17 000 children attended the PTE's production of The Three Munschketeers, a creative retelling of some of author Robert Munsch's most popular stories. The WSO presented holiday favourites, including Handel's Messiah, at performances in Steinbach, Beausejour, Virden and Winkler in December 2011.

Manitoba Hydro also returned as a sponsor for numerous community events in 2011-12, including: the Festival du Voyageur, the largest francophone celebration outside of Quebec; the Power Smart Winnipeg Santa Claus Parade, for which more than 100 employees volunteered; the Power Smart Waterfall of Lights annual skating party in Brandon; and the 2011 Royal Manitoba Winter Fair.

CORPORATE GOVERNANCE

The affairs of Manitoba Hydro are overseen by a board whose members are appointed by the Lieutenant-Governor in Council of Manitoba.

The board's primary responsibility is to ensure that the corporation carries out its legislative mandate. The board considers the principles of sustainable development, and Manitoba Hydro's code of ethics, in its decisions. Minutes of board meetings are public and the corporation's annual report and quarterly financial statements are tabled in the legislature. The annual report is approved by a committee of the Manitoba legislature. The mandate of the corporation is reviewed by the Crown Corporations Council.

The Audit Committee of the board reviews Manitoba Hydro's integrated financial forecast and makes recommendations to the board. The Audit Committee reviews whether Manitoba Hydro's quarterly and annual financial statements present fairly the financial position and performance in accordance with generally accepted accounting principles. The Audit Committee confirms whether management has assessed areas of potential significant financial and operational risk and has taken appropriate measures, and the Audit Committee reviews management's systems for ensuring legal compliance. The Audit Committee obtains opinions from external auditors, internal auditors and management on the quality of internal controls, and verifies that external auditors have performed their duties with sufficient independence from management.

The Human Resources and Governance Committee assists the board with succession planning and human resources issues. The committee reviews the board's approach to corporate governance with a view to best practices and Manitoba Hydro's mandate.

All of the members of the board sit on the Planning Committee, which approves the annual corporate strategic plan.

Integrity Program

Manitoba Hydro encourages employees and others to speak up on matters of concern without fear of reprisal, through its Integrity Program. All disclosures under the Integrity Program are protected by strict rules of confidentiality.

Below is a summary of all disclosures received during 2011-12 which allege wrongdoing as defined in The Public Interest Disclosure (Whistleblower Protection) Act:

Total number of disclosures received:	8
Number of disclosures ongoing from 2010-11:	5
Number of disclosures acted upon:	13
Number of disclosures not acted upon:	0
Number of investigations commenced/continued:	13
Number of disclosures that were verified:	4

Corrective action was taken for each verified incident, as follows:

Corrective action was taken for each verified incident, as follows:
- Contaminated soil at the site of a construction camp was remediated.
- Student was terminated for false credentials.
- Employee left corporation and manager received verbal reprimand for inappropriate procedures in the purchase of a parcel of land.
- Employee received one day suspension for making unwanted sexual comments to a contractor.

MANITOBA HYDRO-ELECTRIC BOARD

William C. Fraser, FCA
Chairman

James Husiak, CA

Tina Keeper

Eugene Kostyra

Dr. John Loxley

Michael Spence

Dudley Thompson

Larry Vickar

Frank Whitehead

No photo: David Crate

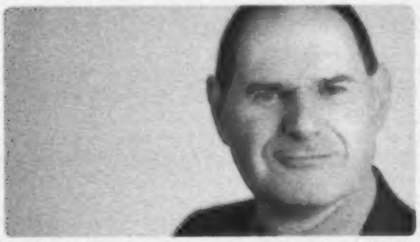
MANITOBA HYDRO SENIOR OFFICERS

Scott A. Thomson, CA
President and Chief Executive Officer

Ken R. F. Adams, P. Eng
Senior Vice-President,
Power Supply

Vince A. Warden, CMA, FCMA
Senior Vice-President,
Finance and Administration and Chief Financial Officer

E. Ruth Kristjanson, BA (Hons), MA
Vice-President,
Corporate Relations



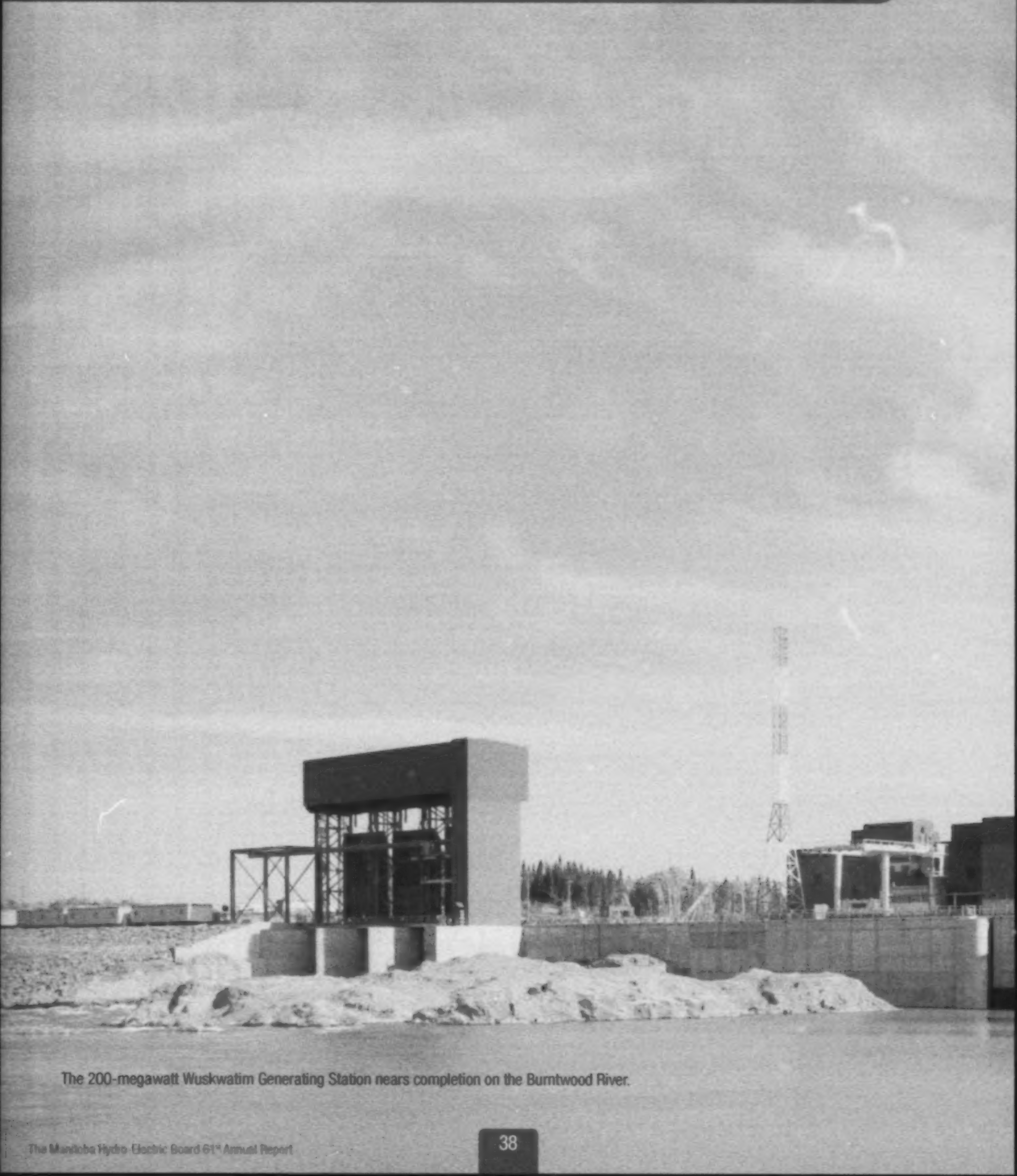
Ken M. Tennenhouse, LL.B
General Counsel and Corporate Secretary

Ed T. Tymofichuk, P. Eng
Vice-President,
Transmission

G. Brent Reed
Vice-President,
Customer Service & Distibution

Lloyd Kuczek, P. Eng, MBA
Vice-President,
Customer Care & Marketing

FINANCIAL REVIEW



The 200-megawatt Wuskwatim Generating Station nears completion on the Burntwood River.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) section of the Annual Report provides comments on the financial results and operational performance of Manitoba Hydro for the year ended March 31, 2012 with comparative information where applicable. The MD&A also provides an assessment of corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which may cause actual results to differ from those anticipated. For context, the MD&A should be read in conjunction with the consolidated financial statements and notes.

As a provincially-owned Crown Corporation, Manitoba Hydro's mandate is to provide for the continuance of a supply of energy to meet the needs of Manitoba consumers in the most reliable, economic and environmentally sustainable manner. In fulfilling its mandate, Manitoba Hydro has assessed all known risks and has established a number of goals with related measures and targets. In addition to a review of financial and operational performance, the MD&A also reviews Manitoba Hydro's progress towards achieving its strategic goals.

OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations for the fiscal year ended March 31, 2012 was $61 million compared to $150 million in the previous fiscal year. The decrease in net income of $89 million was largely attributable to lower electricity prices in export markets and higher power purchases. Low export prices reflect reduced power demand due to current economic conditions and low prices for competing energy sources.

Consolidated net income of $61 million for the fiscal year 2012 was comprised of a $67 million profit in the electricity sector and a $6 million loss in the natural gas sector. The gas sector loss represented a reduction of $13 million from the net income of $7 million in the previous year reflecting decreased volumes sold as a result of milder weather during the winter of 2011-12 compared to the previous year.

Consolidated net income of $61 million for 2011-12 was lower than the forecasted net income of $99 million largely due to lower than forecast electricity revenues partially offset by lower than forecast financing costs and power purchases.

Net income of $61 million increased the Corporation's retained earnings to $2.5 billion at March 31, 2012 which contributed to the highest level of equity in the Corporation's history. All financial ratios, including the debt/equity, interest coverage and capital coverage ratios, were close to target levels for the year.

CONSOLIDATED RESULTS

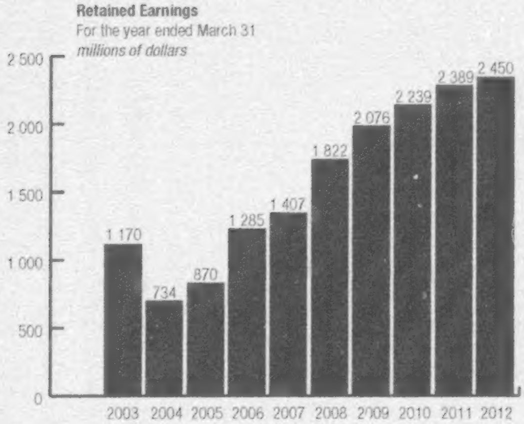
The following schedule summarizes Manitoba Hydro's consolidated financial results for the fiscal year ended March 31, 2012 compared to the previous fiscal year:

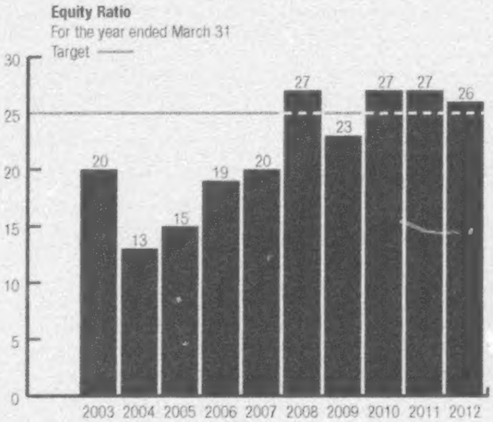
	Electricity		Natural Gas		Consolidated		
	2012	2011	2012	2011	2012	2011	Change
			millions of dollars				
Revenues							
Manitoba (net of cost of gas sold)	1 210	1 218	132	143	1 342	1 361	(19)
Extraprovincial	363	398	-	-	363	398	(35)
	1 573	1 616	132	143	1 705	1 759	(54)
Expenses	1 506	1 473	138	136	1 644	1 609	35
Net income (loss)	67	143	(6)	7	61	150	(89)
Total assets	13 203	12 288	588	594	13 791	12 882	909
Retained earnings	2 416	2 349	34	40	2 450	2 389	61
Financial Ratios							
Debt:Equity					74:26	73:27	
Interest coverage					1.10	1.27	
Capital coverage					1.13	1.25	

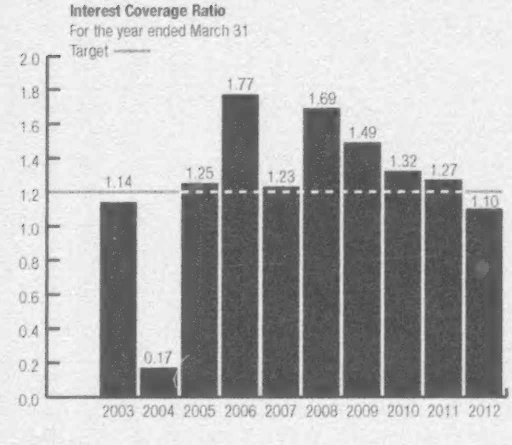
Revenues from consolidated electricity and natural gas operations totaled $1 902 million in 2011-12 compared to $2 020 million in the previous fiscal year. After deducting the cost of gas sold, which is a pass-through cost with no markup to customers by Manitoba Hydro, revenues amounted to $1 705 million compared to $1 759 million in the prior year. The $54 million or 3.1% decrease in revenues was largely attributable to reduced extraprovincial revenues.

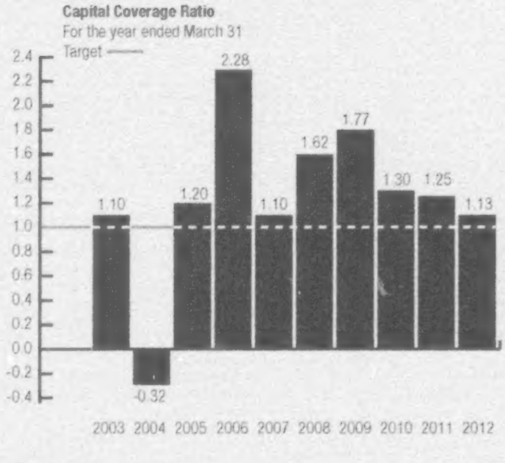
Expenses for electricity and natural gas operations totaled $1 644 million in 2011-12, an increase of $35 million or 2.2% over the previous year. The increase was largely due to a $40 million increase in power purchases and a $9 million increase in operating and administrative costs partially offset by a $12 million decrease in depreciation and amortization.

Net income from electricity and natural gas operations amounted to $61 million in 2011-12 compared to $150 million in the previous year. The consolidated net income increased retained earnings to $2 450 million at March 31, 2012. As indicated in the accompanying chart, net income of $61 million resulted in the equity ratio being 26% at March 31, 2012, which exceeds the Corporation's target of 25%. Financial ratios for interest coverage and capital coverage reached 1.10 and 1.13 respectively for the year, which was slightly lower than target levels of 1.20 for both ratios.


Retained Earnings
For the year ended March 31
millions of dollars


Equity Ratio
For the year ended March 31
Target ——


Interest Coverage Ratio
For the year ended March 31
Target ——


Capital Coverage Ratio
For the year ended March 31
Target ——

Financing

Cash provided from operations in 2011-12 was $567 million, a decrease of $28 million from the previous year. The decrease was mainly the result of lower cash received from electricity sales and higher cash disbursed for power purchases.

Proceeds from financing arranged by the Corporation amounted to $698 million in 2011-12 compared to $915 million in the previous year. Current year proceeds were used to fund new capital requirements and to retire long-term debt maturing during the year.

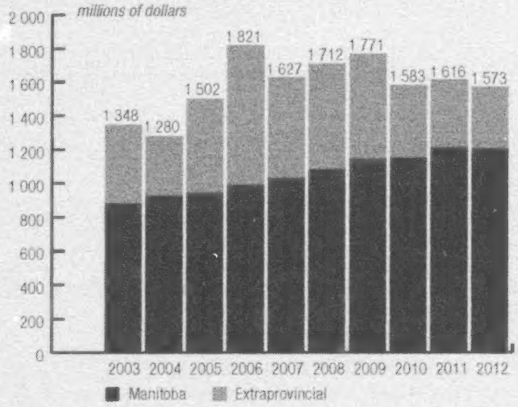
During 2011-12, the Corporation retired $24 million of HydroBonds debt and $1 million of Manitoba Hydro-Electric Board Bonds debt.

ELECTRICITY OPERATIONS

Electricity Revenues

Electricity revenues totaled $1 573 million, a decrease of 2.7% or $43 million from the previous year. The reduction was the result of a $35 million decrease in extraprovincial revenues and an $8 million decrease in domestic revenues. The decrease in extraprovincial revenues was primarily due to lower prices in the U.S. markets. The decrease in domestic revenues was primarily a result of a lower heating load from milder winter weather.

Electricity Revenues
For the year ended March 31
millions of dollars



The breakdown of electricity revenues by customer segment is as follows:

Electricity Revenues and Kilowatt Hour Sales
For the year ended March 31

	2012	2011	% change	2012	2011	% change
	millions of dollars			*millions of kWh*		
Manitoba						
Residential	490	503	(2.6)	6 930	7 060	(1.8)
General service	424	426	(0.5)	6 660	6 719	(0.9)
Industrial	277	271	2.2	7 180	7 008	2.5
Other revenue	19	18	5.6	-	-	-
	1 210	1 218	(0.7)	20 770	20 787	(0.1)
Extraprovincial	363	398	(8.8)	10 244	10 344	(1.0)
	1 573	1 616	(2.7)	31 014	31 131	(0.4)

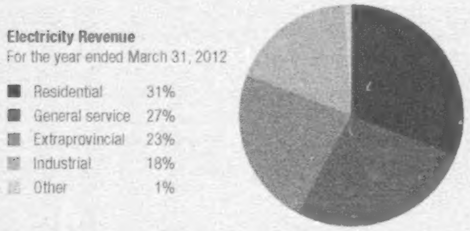
Revenues from electricity sales in Manitoba totaled $1 210 million in 2011-12, a decrease of $8 million from the previous year. Electricity consumption in Manitoba was 20 770 million kilowatt hours, 17 million kilowatt hours lower than the previous year. The decrease in consumption was mainly due to lower heating loads due to milder winter weather in 2011-12 offset by an increase in the number of customers and increased industrial consumption.

Revenues from sales to residential customers for 2011-12 amounted to $490 million, a decrease of $13 million or 2.6% from the previous year. The decrease was primarily a result of a lower heating load from milder winter weather partially offset by an increase in the numbers of customers. At March 31, 2012 the number of residential customers was 474 661, an increase of 5 026 or 1.1% compared to the previous year.

Revenues from general service customers amounted to $424 million in 2011-12, a decrease of $2 million or 0.5% from the previous year. The decrease was primarily a result of lower heating load from milder winter weather partially offset by an increase of 309 small general service customers.

Revenues from large industrial customers amounted to $277 million, an increase of 2.2% or $6 million from the previous year. The increase was mainly the result of increased consumption during the year.

Extraprovincial revenues totaled $363 million in 2011-12, a decrease of $35 million from the previous year. The decrease was primarily due to lower prices in the U.S. resulting from reduced power demand and the current low price for competing energy sources. Of the total extraprovincial revenues, $315 million or 87% was derived from the U.S. market, while $48 million or 13% was from sales to Canadian markets.

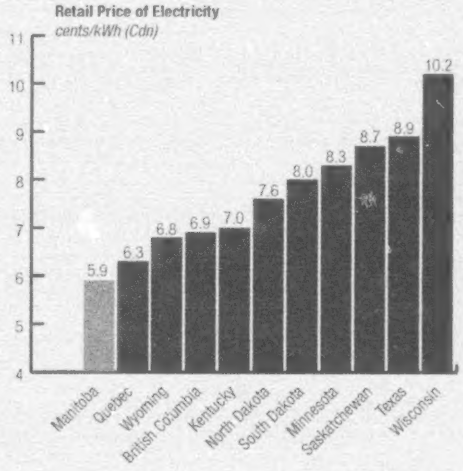


Electricity Revenue
For the year ended March 31, 2012

Electricity Rates

The Public Utilities Board (PUB) issued Order 5/12 on January 17, 2012, which directed that the 2.9% electricity rate increase previously approved on an interim basis effective April 1, 2010 be reduced to 1.9% and that the 2.0% interim electricity rate increase effective April 1, 2011 be approved as final. The cumulative impact of the 1.0% rate reduction for the 2010-11 and 2011-12 fiscal years is a reduction in revenues of $23 million in 2011-12.

As illustrated in the accompanying chart, Manitoba Hydro's domestic electricity rates continue to be the lowest in North America.



Retail Price of Electricity
cents/kWh (Cdn)

Electricity Expenses

Electricity expenses totaled $1 506 million for 2011-12, an increase of $33 million or 2.2% over the previous year. The increase in expenses was primarily the result of a $40 million increase in power purchases and an $8 million increase in operating and administrative expense partially offset by a $13 million decrease in depreciation and amortization expenses.

Electricity Expenses
For the year ended March 31

	2012	2011	% change
	millions of dollars		
Operating and administrative	410	402	2.0
Finance expense	385	388	(0.8)
Depreciation and amortization	353	366	(3.6)
Water rentals and assessments	119	120	(0.8)
Fuel and power purchased	146	106	37.7
Capital and other taxes	84	82	2.4
Corporate allocation	9	9	-
	1 506	1 473	2.2

Operating and administrative expenses are comprised primarily of labour, material and overhead costs associated with operating, maintaining and administering the facilities of the Corporation. In 2011-12, operating and administrative expenses for electric operations amounted to $410 million, an increase of $8 million over 2010-11. The increase was the net result of higher labour and benefit costs partially offset by savings due to cost constraint measures.

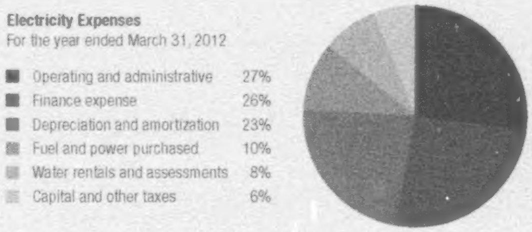
Finance expense totaled $385 million in 2011-12, a decrease of $3 million or 0.8% from the prior year. The decrease was primarily due to lower interest rates and a stronger Canadian dollar partially offset by the financing costs associated with higher debt levels.

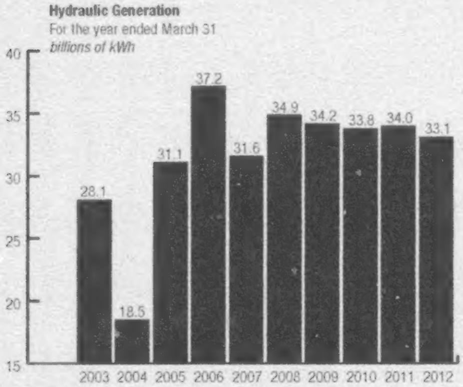
Depreciation and amortization expense amounted to $353 million in 2011-12, a decrease of $13 million or 3.6% from the previous year. The decrease was mainly attributable to lower depreciation rates partially offset by new additions to plant and equipment coming into service. Lower depreciation rates are the result of a depreciation study completed in 2011-12 which extended service lives of assets and resulted in a $35 million decrease in depreciation and amortization expense.

Water rentals and assessments amounted to $119 million in 2011-12, a decrease of $1 million from the previous year. The decrease reflects lower hydraulic generation in 2011-12 compared to the previous year. Hydraulic generation amounted to 33.1 billion kilowatt hours in 2011-12 compared to 34.0 billion kilowatt hours in 2010-11.

Fuel and power purchased includes fuel for the thermal generating stations and remote diesel sites, purchases of wind power from the independently-owned St. Leon and St. Joseph wind farms and from electricity imports. Fuel and power purchased was $146 million in 2011-12, an increase of $40 million or 37.7% over 2010-11. The increase in power purchased was primarily the result of the commencement of operations of the St. Joseph wind farm in May 2011. The output of the St. Joseph wind farm is purchased by Manitoba Hydro under a 27-year power purchase agreement.

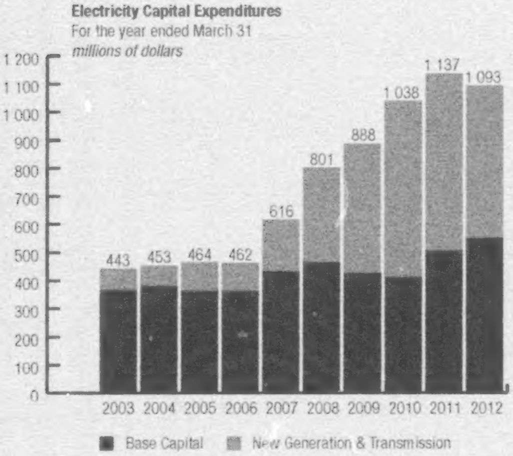
Capital and other taxes amounted to $84 million in 2011-12, an increase of $2 million or 2.4% compared to the previous year. The change was mainly due to increased capital taxes related to additional capital investment.


Electricity Expenses
For the year ended March 31, 2012


Hydraulic Generation
For the year ended March 31
billions of kWh

Electricity Capital Expenditures

Expenditures for capital construction totaled $1 093 million in 2011-12 compared to $1 137 million during the previous fiscal year. Capital expenditures for ongoing plant and equipment requirements, referred to as base capital, amounted to $553 million, an increase of $45 million compared to the previous year. The increase was attributable to higher expenditures on substation, distribution and generation station upgrades.


Electricity Capital Expenditures
For the year ended March 31
millions of dollars

Major new generation and transmission capital expenditures of $540 million included $218 million related to the Wuskwatim Generating Station and transmission line, $108 million related to future Keeyask and Conawapa generation facilities, $57 million related to the new Bipole III project, $53 million for the Riel Station, $54 million for upgrades to Kelsey Generating Station and $41 million towards the Pointe du Bois projects.

NATURAL GAS OPERATIONS

Centra Gas is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 242 813 residential and 24 886 commercial and industrial customers in Manitoba.

The natural gas sector incurred a net loss of $6 million in 2011-12 compared to net income of $7 million in the previous fiscal year. The net loss in 2011-12 was primarily attributable to reduced natural gas demand due to exceptionally mild winter weather during the year.

Natural Gas Revenues

Revenues from the sale and distribution of natural gas during 2011-12 were $329 million, a decrease of $75 million from the previous year. After deducting the cost of gas sold, which is a pass-through cost with no mark-up by Centra, net revenues amounted to $132 million, a decrease of $11 million from 2010-11. The decrease in net revenue was almost entirely due to milder winter weather than the previous year. Natural gas deliveries were 1 866 million cubic metres in 2011-12 compared to 1 996 million cubic metres in 2010-11.

As directed by the Public Utilities Board, $3.8 million of revenue from 2011-12 was set aside to continue a program targeted to low-income customers and qualifying seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces. At March 31, 2012, there is a remaining balance of $14 million in the Furnace Replacement Program.

Natural Gas Revenues and Deliveries

For the year ended March 31

	2012	2011	% change	2012	2011	% change
	millions of dollars			*millions of cubic metres*		
Residential	172	205	(16.1)	509	591	(13.9)
Small general service	23	30	(23.3)	81	95	(14.7)
Large general service	96	120	(20.0)	440	499	(11.8)
Large commercial & industrial	20	25	(20.0)	121	132	(8.3)
Interruptible	12	18	(33.3)	86	95	(9.5)
T-service and other	6	6	-	629	584	7.7
	329	404	(18.6)	1 866	1 996	(6.5)

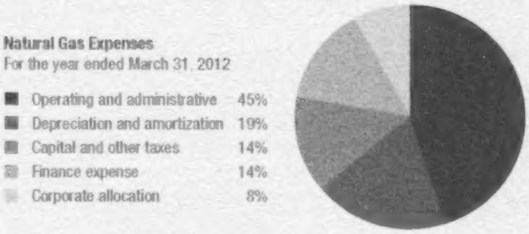
In accordance with Centra's quarterly rate-setting methodology, annualized rates for natural gas supplied to residential customers changed during 2011-12 as follows:

- May 1, 2011	3.1% decrease
- August 1, 2011	1.8% decrease
- November 1, 2011	0.9% decrease
- February 1, 2012	9.2% decrease

The decreases in natural gas rates were attributable to lower prices for natural gas purchased by Centra Gas from Alberta.

Natural Gas Expenses

Expenses attributable to the natural gas operations, excluding cost of gas sold, amounted to $138 million in 2011-12, which was $2 million higher than the previous year. Increases of $1 million were incurred in each of operating and administrative expenses, depreciation and amortization and finance expense with a partially offsetting decrease of $1 million in capital and other taxes.


Natural Gas Expenses
For the year ended March 31, 2012

Natural Gas Expenses
For the year ended March 31

	2012	2011	% change
	millions of dollars		
Operating and administrative	62	61	1.6
Finance expense	19	18	5.6
Depreciation and amortization	26	25	4.0
Capital and other taxes	19	20	(5.0)
Corporate allocation	12	12	-
	138	136	1.5

Centra purchased 401 million cubic metres of natural gas based on monthly Alberta indexed pricing, 288 million cubic metres under daily Alberta indexed pricing and 494 million cubic meters under delivered service arrangements from a number of supply sources. Centra also delivered natural gas on behalf of brokers to 17 965 (2011 – 27 255) customers receiving natural gas under Direct Purchase arrangements.

Centra offers a fixed rate service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers. At March 31, 2012 there were 434 customers (2011 – 397 customers) on Centra's fixed rate service. Total natural gas deliveries under this service were 4.0 million cubic metres (2011 – 2.9 million cubic metres).

Natural Gas Capital Expenditures

Capital expenditures in the natural gas sector were $31 million in 2011-12 compared to $27 million in the previous fiscal year. The capital expenditure program relates to new business, system improvement and other expenditures to meet the needs of natural gas customers.

SUBSIDIARIES

In addition to Centra Gas, Manitoba Hydro has the following wholly-owned subsidiaries involved in energy-related business enterprises:

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro, Centra Gas and other utilities.

The following table provides a summary of the financial results of the subsidiary companies excluding Centra Gas for the fiscal year ended March 31, 2012 compared to the previous fiscal year:

	MHI		MHUS		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
				millions of dollars				
Revenues	31.8	33.7	5.5	5.0	0.8	0.9	38.1	39.6
Expenses	27.9	29.8	5.1	4.9	0.2	0.2	33.2	34.9
Net income	3.9	3.9	0.4	0.1	0.6	0.7	4.9	4.7

WUSKWATIM POWER LIMITED PARTNERSHIP

The **Wuskwatim Power Limited Partnership (WPLP)** was formed to carry on the business of developing, owning and operating the Wuskwatim Generating Station and related works, excluding the transmission facilities but including all dams, dikes, channels, excavations and roads. The WPLP has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation (TPC) which is owned beneficially by Nisichawayasihk Cree Nation (NCN) and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro. The Wuskwatim Generating Station is located at Taskinigup Falls on the Burntwood River about 45 kilometres southwest of Thompson, Manitoba. The first of three generating units is expected to be placed in service by summer 2012. The total cost of the project including transmission facilities is projected to be $1.7 billion. At March 31, 2012 total expenditures for Wuskwatim generation and transmission facilities amounted to $1.6 billion (2011 – $1.4 billion).

CORPORATE GOALS

Manitoba Hydro has the following corporate goals:

Improve safety in the workplace
Achieving an accident-free workplace is Manitoba Hydro's most important goal and a critical component of all corporate activities. Manitoba Hydro is committed to continuously improving its safety performance and is currently focusing on strategies that will eliminate all high-risk incidents and further instill a safety and health culture throughout the Corporation.

Provide exceptional customer value
Manitoba Hydro continually strives to provide exceptional value to customers through low energy rates, a safe and secure system, high reliability and superior service.

Strengthen working relationships with Aboriginal peoples
Manitoba Hydro is one of the leading utilities in Canada with respect to Aboriginal representation in its workforce. The Corporation continues to place emphasis on building enduring working relationships with Aboriginal peoples through such measures as pre-employment training programs, purchasing and employment preferences, support for Aboriginal businesses and recognition of cultural requirements in the workplace.

Maintain financial strength
Maintaining the financial strength of the Corporation will ensure that energy rates remain low, stable and predictable. A strong financial structure also assists in protecting the Corporation and its customers from a variety of risks.

Extend and protect access to North American energy markets and profitable export sales
The ability to sell surplus energy into export markets has contributed significantly to low domestic rates in Manitoba. It is important that access to profitable export markets be maintained and expanded.

Attract, develop and retain a highly skilled and motivated workforce that reflects the demographics of Manitoba
In the increasingly competitive marketplace for talented people, Manitoba Hydro must continue to attract and retain the very best in human resources while striving to attain its diversity targets.

Protect the environment in everything that we do
Manitoba Hydro is dedicated to upholding the principles of sustainable development and to preventing or mitigating any adverse impacts from our operations. Through careful management of new and existing facilities and infrastructure, Manitoba Hydro continues to operate in the most environmentally responsible manner.

Promote cost effective energy, conservation and innovation
Manitoba Hydro is recognized as a Canadian leader in promoting the wise and efficient use of energy through its Power Smart brand and continues to encourage research and development of emerging energy technologies.

Be recognized as an outstanding corporate citizen and a supporter of economic development in Manitoba
Manitoba Hydro and its employees continue to take leadership roles in community activities and programs throughout the province. The Corporation also works with economic development agencies to maximize wealth and jobs in Manitoba and works with customers to minimize their energy costs.

REPORT ON PERFORMANCE

	Measure	Target / Challenge	2012 Performance
Safety in the Workplace	High-risk accidents	0	2
	Accident severity rate (days per 200 000 hours worked)	<16	10.2
	Accident frequency rate (accidents per 200 000 hours worked)	<0.8	0.9
Exceptional Customer Value	Electricity rates	Lowest in North America	Lowest in North America
	Average electric customer outage time (minutes per year)	≤90	143.4
	Average electric customer outage frequency (outages per year)	≤1.3	1.7
	CEA Customer Service Index	Best in Canada	Best in Canada
Financial Strength	Interest Coverage	>1.20	1.10
	Capital Coverage	>1.20	1.13
	Debt: Equity	75:25	74:26
Diverse Work Force	Women	26%	25%
	Aboriginal – Corporate	16%	16%
	Aboriginal – Northern	45%	41%
	Persons with disabilities	6%	5%
	Visible minorities	6%	6%
Protecting the Environment	% Generation from renewable resources	>99%	99.9%
	Environmental component of CEA Customer Service Index	≥8.5	7.5
Sustainability & Energy Conservation	Electric energy saved per year	1 939 GWh	1 966 GWh
Corporate Citizenship & Economic Development	CEA Public Attitude Index	≥8.5	7.7
	Corporate Citizenship Index	≥8.2	7.7

RISK MANAGEMENT

Manitoba Hydro faces a number of risks in the fulfillment of its mandate. These risks are managed through a systematic, proactive and integrated process designed to balance the objectives of:

- identifying threats that affect the achievement of the Corporation's mission and mandate;
- mitigating the consequences of negative occurrences; and
- taking advantage of opportunities to provide benefits to all stakeholders.

Most risk management efforts are focused on reducing the occurrence of negative events. However, the Corporation also has plans in place to reduce the impacts should a negative event occur. These plans are under continual assessment. In addition, all safety and reliability risks are managed through strict adherence to design, construction and operating standards and practices together with extensive public education and employee training programs. A comprehensive Emergency Response Program is also in place to ensure an effective and coordinated response to possible emergencies or disasters.

The financial and operational risks associated with the management of an integrated electricity and natural gas utility are significant. These risks include the impacts of weather on supply and demand, price and market uncertainties, interest, inflation and foreign exchange rates, skilled labour availability and costs, aging infrastructure maintenance and replacement, increasing regulatory, environmental and legal requirements, and accelerated technological change. Manitoba Hydro manages these risks through an integrated control framework and by maintaining an adequate level of retained earnings.

Manitoba Hydro's major risks are quantified in the following table:

Risk	Potential Financial Impact
Infrastructure	Greater than $2.0 billion
Drought	Greater than $1.4 billion for a five year drought
Loss of export market	Greater than 30% of electricity revenue
Interest rates	Approximately $720 million for a 1% change over 10 years
Foreign exchange rates	Approximately $75 million for a $0.10 U.S. change over 10 years

STATUS OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In March 2012, the Canadian Accounting Standards Board (AcSB) announced an additional optional deferral of IFRS for qualifying entities with rate regulated activities. Manitoba Hydro meets the AcSB criteria for deferral and intends to adopt IFRS for its 2013-14 fiscal year with comparative information presented for the 2012-13 fiscal year.

The Corporation expects the transition to IFRS to impact accounting, financial reporting and related information systems. To facilitate the conversion process, Manitoba Hydro has assembled a project team, engaged external advisors and established a formal project governance structure with the formation of a Steering Committee consisting of an executive sponsor and senior levels of management from throughout the Corporation. Regular reporting of the project status is provided to the Audit Committee of the Manitoba Hydro-Electric Board.

Although IFRS and Canadian Generally Accepted Accounting Principles (GAAP) are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact Manitoba Hydro include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption* of IFRS.

At this time, it is uncertain as to what position, if any, the International Accounting Standards Board (IASB) might take to address accounting for the effects of rate-regulated activities. In addition, the IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to the commencement of Manitoba Hydro's 2013-14 fiscal period. Manitoba Hydro continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

OUTLOOK

Manitoba Hydro ended fiscal 2011-12 with above average water storage levels. However, Manitoba Hydro continues to experience low export market prices as a result of low natural gas prices and lower demand for electricity due to economic conditions in the U.S. Low export prices are projected to result in continuing downward pressure on net income in 2012-13.

The 200-megawatt Wuskwatim Generating Station, which is located on the Burntwood River 45 kilometres southwest of Thompson, is being developed by the Wuskwatim Power Limited Partnership, a partnership involving Manitoba Hydro and the Nisichawayasihk Cree Nation. It is the first generating station to be built in Manitoba in nearly two decades and the first formal partnership arrangement in Canada involving a First Nation and an electric utility for development of a major generating station. Progress continued throughout the year with the installation of the three turbine generators underway. The first generating unit is expected to be placed in service by summer of 2012 with all units commissioned by the fall of this year.

Manitoba Hydro is actively planning a number of major projects such as the Bipole III transmission line and Keeyask and Conawapa generating stations in order to further improve electrical system reliability, to meet the future energy needs of the province and to take advantage of export opportunities. These plans will involve the investment of approximately $18 billion over the next 10 years which will generate significant returns for Manitobans over ensuing decades. Construction of new generation projects will only proceed once firm export sales contracts are secured, extensive consultations with stakeholders and First Nations are concluded and environmental and regulatory approvals are received.

The Bipole III project involves the construction of a new 500-kilovolt high voltage direct current transmission line along with new converter stations, one in the north and another at the southern receiving end. The project is required to improve system reliability and will also provide additional capacity for delivery of existing and proposed hydroelectric generation to southern markets. The environmental impact statement of the new Bipole III high voltage direct current transmission project was filed with Manitoba Conservation in December 2011. Public hearings on the project by the Clean Environment Commission are expected to begin in the fall of 2012. Construction is scheduled to begin, pending regulatory approval, in the winter of 2012-13 with a scheduled in-service date of 2017.

OUTLOOK (continued)

The proposed 695-megawatt Keeyask Generating Station would be built on the Nelson River, 175 kilometres northeast of Thompson, in partnership with four Keeyask Cree Nations (KCN) – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation. A Keeyask Infrastructure Agreement was negotiated between Manitoba Hydro and KCN enabling an early start to the construction of the access road to the site and the construction camp. The project description was filed with the federal Major Projects Management Office in July 2011 and the Environmental Act Proposal form was filed with Manitoba Conservation in December 2011. The application for the Keeyask Project Interim Water Power License was submitted to the Province in early 2012. The environmental impact statement is expected to be submitted this summer. Work is progressing on maintaining the current regulatory schedule, with a planned construction start date of 2014 and an in-service date of 2019.

The proposed 1 485-megawatt Conawapa Generating Station would be built approximately 90 kilometres downstream of Gillam and 28 kilometres downstream of the Limestone Generating Station, in the Fox Lake Resource Management Area on the Lower Nelson River. A formal planning process is underway with the communities in the vicinity of the project, including Fox Lake Cree Nation, York Factory First Nation, the Cree Nation partners (Tataskweyak Cree Nation and War Lake First Nation) and Shamattawa First Nation. Activities are progressing to complete the project description, preliminary engineering and the environmental assessment. The Environmental Act Proposal form is expected to be filed in 2013 with the earliest start of construction in December 2016, which would support an earliest in-service date of 2025.

Manitoba Hydro's Power Smart Program continues to serve residential, commercial and industrial customers with a total of 33 programs and initiatives. The highly successful Power Smart Program continues to encourage all customer sectors to use energy more efficiently. These efforts work towards making permanent shifts in the Manitoba marketplace for long-term adoption of energy efficient technologies and practices. The Power Smart Program is projected to achieve electric energy and demand savings of 3 283 gigawatt hours/year and 906 megawatts by 2025-26. Natural gas savings over that same time period are projected to be 153 million cubic metres. The overall Power Smart Program is expected to reduce greenhouse gas emissions by over 2.5 million tonnes annually while providing Manitobans with lower energy bills from the installation of energy savings measures and the continued sale of the conserved energy on export markets.

MANAGEMENT REPORT

For the year ended March 31, 2012

The accompanying consolidation financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The financial statement have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 28, 2012. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The internal and external auditors have full and unrestricted access to the Audit Committee, with or without the presence of management. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:

Vince Warden

Scott A. Thomson, CA
President and Chief Executive Officer

Vince A. Warden, CMA, FCMA
Senior Vice-President,
Finance & Administration and Chief Financial Officer

Winnipeg, Canada
June 28, 2012

AUDITOR'S REPORT

To the Board of Directors of
Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of **Manitoba Hydro-Electric Board**, which comprise the consolidated balance sheet as at March 31, 2012 and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Hydro-Electric Board** as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada,
June 28, 2012

Chartered Accountants

Ernst & Young LLP

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

		Notes	2012	2011
			millions of dollars	
Revenues				
Electric	Manitoba		1 210	1 218
	Extraprovincial	3	363	398
Gas	Commodity		197	261
	Distribution		132	143
			1 902	2 020
Cost of gas sold			197	261
			1 705	1 759
Expenses				
Operating and administrative			472	463
Finance expense		4	423	425
Depreciation and amortization			381	393
Water rentals and assessments		5	119	120
Fuel and power purchased			146	106
Capital and other taxes			103	102
			1 644	1 609
Net Income			61	150

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2012	2011
	millions of dollars	
Retained earnings, beginning of year	2 389	2 239
Net income	61	150
Retained earnings, end of year	2 450	2 389

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at March 31

	Notes	2012	2011
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	6	13 631	12 967
Less accumulated depreciation	6	4 984	4 752
		8 647	8 215
Construction in progress	6	3 150	2 739
		11 797	10 954
Current Assets			
Cash and cash equivalents		50	70
Accounts receivable and accrued revenue		328	403
Interest receivable		4	4
Materials and supplies, at average cost	7	106	85
		488	562
Other Assets			
Sinking fund investments	8	372	282
Goodwill and intangible assets	9	268	260
Regulated assets	10	310	309
Other deferred assets	11	556	515
		1 506	1 366
		13 791	12 882

Approved on behalf of the Board:

William C. Fraser, FCA
Chair of the Board

James Husiak

James Husiak, CA
Chair of the Audit Committee

	Notes	2012	2011
		millions of dollars	
Liabilities and Equity			
Long-Term Debt			
Long-term debt net of sinking fund investments		8 729	8 335
Sinking fund investments shown as assets	8	372	282
	12	9 101	8 617
Current Liabilities			
Accounts payable and accrued liabilities	13	361	336
Accrued interest		104	95
Current portion of long-term debt	12	281	30
		746	461
Other Liabilities			
Asset purchase obligation	14	207	207
Other deferred liabilities	15	542	459
		749	666
Contributions in Aid of Construction		318	295
Equity			
Retained earnings		2 450	2 389
Accumulated other comprehensive income		327	367
		2 777	2 756
Non-controlling interest	22	100	87
		2 877	2 843
		13 791	12 882

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31

	2012	2011
	millions of dollars	
Operating Activities		
Cash receipts from customers	1 998	2 029
Cash paid to suppliers and employees	(1 048)	(1 043)
Interest paid	(418)	(422)
Interest received	35	31
Cash provided by operating activities	567	595
Financing Activities		
Proceeds from long-term debt	698	915
Sinking fund withdrawals	23	646
Retirement of long-term debt	(25)	(723)
Other	29	(164)
Cash provided by financing activities	725	674
Investing Activities		
Property, plant and equipment, net of contributions	(1 124)	(1 166)
Sinking fund payments and deposits	(98)	(119)
Other	(90)	(88)
Cash used for investing activities	(1 312)	(1 373)
Net decrease in cash and cash equivalents	(20)	(104)
Cash and cash equivalents, beginning of year	70	174
Cash and cash equivalents, end of year	50	70

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31

	2012	2011
	millions of dollars	
Net income	61	150
Other comprehensive income		
Unrealized foreign exchange (losses) gains on debt in cash flow hedges	(54)	79
Realized foreign exchange losses on debt in cash flow hedges reclassified to income	-	1
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	14	2
	(40)	82
Comprehensive income	21	232

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

For the year ended March 31

	2012	2011
	millions of dollars	
Balance, beginning of year	367	285
Other comprehensive (loss) income	(40)	82
Balance, end of year	327	367

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as set forth in Part V of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook, "Pre-Changeover Accounting Standards" and include the significant accounting policies described hereafter.

Consolidation - The consolidated financial statements include the financial statements of the Manitoba Hydro-Electric Board (Manitoba Hydro or the Corporation) and its subsidiaries. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate-Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. As permitted under Canadian GAAP, the Corporation applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of Canadian GAAP. FASB Accounting Standards Codification Section 980 – Regulated Operations, represents the standard Manitoba Hydro applies for rate-regulated accounting. These accounting policies differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise have been included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets (Note 10) or regulated liabilities (Note 13) which are generally comprised of the following:

- Power Smart programs - The costs of the Corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.

- Site restoration costs - Site restoration costs, other than those for which an asset retirement obligation has been established, are deferred and amortized on a straight-line basis over a period of 15 years.

- Deferred taxes - Taxes paid by Centra Gas (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Acquisition costs - Costs associated with the acquisition of Centra Gas (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.

- Purchased gas variance accounts - Accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/payable, and recovered or refunded in future rates.

- Rate reduction - On January 17, 2012, the PUB issued Board Order 5/12 which directed that the 2.9% electricity rate increase previously approved on an interim basis effective April 1, 2010 be reduced to 1.9% and that the associated revenue be set aside until further direction is provided by the PUB. The cumulative impact for fiscal 2011 and 2012 has been recorded as a regulated liability. The disposition of this regulatory liability will be determined at a future PUB hearing.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to 5 years.

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**
Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases, and depreciation and interest charged to operations commences.

b) **Depreciation**
Depreciation is provided on a straight-line remaining-life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	-Hydraulic	20 - 125 years
	-Thermal	5 - 65 years
Transmission	-Lines	10 - 85 years
	-Stations	15 - 65 years
Distribution		10 - 75 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the Corporation. A depreciation study was completed during 2011-12 which included a comprehensive review of the major components within each asset class. Adjustments to the component groupings and to the estimated service lives were implemented in 2011-12.

c) **Asset Retirement Obligations**
Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the estimated retirement cost is added to the carrying amount of the related asset. In subsequent periods, the estimated retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Materials and Supplies**
Materials and supplies are valued at the lower of average cost or net realizable value.

e) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

f) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

g) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.

h) **Employee Future Benefits**

Manitoba Hydro provides future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, the Enhanced Hydro Benefit Plan (EHBP), three Centra Gas curtailed pension plans and the Winnipeg Civic Employee Benefits Program (WCEBP).

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives, inflation rates and expected rate of return on plan assets. Pension expense is comprised of the cost of pension benefits provided during the year, the amortization of past service benefits, experience gains and losses and expected returns on fund assets net of interest on the obligation. The amount of expected returns on fund assets is based on market related values using a five-year moving average. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as assets or liabilities.

The Corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the WCEBP, which maintains the funds and obligations relating to these employees in its financial records.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the future costs of these benefits are based on management's best estimates.

i) **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (OCI). OCI includes unrealized gains and losses arising from changes in the fair value of available-for-sale assets and changes in the foreign exchange rate for U.S. denominated long-term debt and interest payments in effective cash flow hedging relationships. Such amounts are recorded in accumulated OCI (AOCI) until the criteria for recognition in net income are met.

j) **Financial Instruments**

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with revaluation gains and losses recorded in OCI until the instrument is derecognized or impaired. Translation gains and losses on available-for-sale financial assets in a hedging relationship with financial liabilities are credited or charged to finance expense. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.

k) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates.

Long-term monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

l) **Derivatives**

The Corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated balance sheet with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the Corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in net income.

m) **Hedges**

The Corporation has designated cash flow and fair value hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. A fair value hedge relationship has also been established between U.S. long-term debt balances and U.S. sinking fund investments. The Corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

n) **Debt Discounts and Premiums**

Debt discounts and premiums are amortized to finance expense using the effective interest method.

o) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

p) **Goodwill and Intangible Assets**

Goodwill represents the amount of the Corporation's investments in Centra Gas and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the Corporation's investments in Centra Gas or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.

Intangible assets include computer software, application development costs and land easements. Intangible assets are recorded at cost. The cost of computer software and application development includes software, direct labour, materials, contracted services, a proportionate share of overhead costs and interest during development applied at the average cost of debt. Intangible assets with finite useful lives are amortized over their useful lives on a straight-line basis. The expected useful lives are as follows:

Computer software and application development	5 – 10 years
Land easements	75 years

The estimated service lives of intangible assets are based upon depreciation studies conducted periodically by the Corporation. A depreciation study was completed during 2011-12 which resulted in changes to the estimated service lives.

q) **Non-Controlling Interest**

Non-controlling interest represents the outstanding ownership interests attributable to third parties in the Corporation's limited partnerships. The portion of the property, plant and equipment not owned by the Corporation is reflected as non-controlling interest within the equity section of the balance sheet.

r) **Use of Estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 ACCOUNTING CHANGES

Depreciation Rate Estimates

Depreciation is recognized on a straight-line remaining-life basis with estimated service lives of assets being based upon depreciation studies conducted periodically by the Corporation. In accordance with a depreciation study completed in 2011-12, the estimated useful lives of a number of asset components were extended. This change in estimate was applied prospectively effective April 1, 2011 and resulted in a $36 million decrease in depreciation and amortization expense in 2011-12.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

Effective April 1, 2011, the Corporation adopted CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. Sections 1601 and 1602 superseded Section 1600, Consolidated Financial Statements. Section 1582 was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for future business combinations. Section 1601 establishes the standards for preparing consolidated financial statements and Section 1602 requires non-controlling interests to be presented as part of equity on the consolidated balance sheet. These standards will be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Corporation has reclassified its non-controlling interest to a separate component of equity. The adoption of Sections 1582 and 1601 had no impact on the consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards (IFRS)
In February 2008, the Canadian Accounting Standards Board (AcSB) announced that publicly accountable enterprises would be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that government business enterprises such as Manitoba Hydro would be required to follow IFRS for periods beginning January 1, 2011.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact Manitoba Hydro include property, plant and equipment, regulatory assets and liabilities, employee benefits and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS*.

In May 2010, the International Accounting Standards Board (IASB) issued the omnibus *Improvements to IFRS*, which includes an amendment to IFRS 1 for entities with rate-regulated activities. The amendment applies to first-time adopters by offering an optional exemption to use the carrying amount of property, plant and equipment and intangible assets as deemed cost of those assets on the transition date. This exemption eliminates the requirement to retrospectively adjust opening property, plant and equipment and/or intangible asset balances for costs that would otherwise not qualify for capitalization under IFRS. Manitoba Hydro intends to apply this exemption.

In September 2010, the AcSB implemented changes to Part I of the CICA Handbook – *Accounting*; allowing qualifying entities with rate-regulated activities to be permitted, but not required, to defer their adoption of Part I IFRS for one year. In March 2012, the AcSB announced an additional optional one-year deferral of IFRS for qualifying entities with rate-regulated activities. Manitoba Hydro meets the AcSB criteria for the deferral and intends to adopt Part I IFRS for its 2013-14 fiscal year.

At this time, it is uncertain as to what position, if any, the IASB might take to address accounting for the effects of rate-regulated activities. In addition, the IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to the commencement of Manitoba Hydro's 2013-14 fiscal period. Manitoba Hydro continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

NOTE 3 EXTRAPROVINCIAL REVENUES

	2012	2011
	millions of dollars	
United States	315	335
Canada	48	63
	363	398

U.S. extraprovincial revenues were translated into Canadian dollars at exchange rates in effect at the date of the transaction. The average effective exchange rate for the year was $1.00 U.S. = $0.98 Canadian (2011 - $1.00 U.S. = $1.03 Canadian).

NOTE 4 FINANCE EXPENSE

	2012	2011
	millions of dollars	
Interest on debt	603	573
Interest capitalized	(170)	(138)
Amortization of premiums and discounts	-	3
Investment income	(13)	(18)
Realized foreign exchange losses on debt in cash flow hedges	-	1
Realized losses on revaluation of dual currency bonds	3	4
	423	425

Included in interest on debt is $85 million (2011 - $80 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province of Manitoba (2011 - 1.0%).

NOTE 5 WATER RENTALS AND ASSESSMENTS

	2012	2011
	millions of dollars	
Water rentals	111	114
Assessments	8	6
	119	120

Water rentals are paid to the Province of Manitoba for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2011 - $3.34 per MWh).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
			millions of dollars			
Generation						
Hydraulic	5 188	1 658	2 276	4 855	1 601	2 013
Thermal	475	260	11	475	239	7
Transmission lines	855	296	246	793	285	260
Substations	2 668	1 260	489	2 559	1 193	357
Distribution	3 268	1 193	105	3 144	1 156	52
Other	1 177	317	23	1 141	278	50
	13 631	4 984	3 150	12 967	4 752	2 739

NOTE 7 MATERIALS AND SUPPLIES

	2012	2011
	millions of dollars	
Materials and supplies	65	64
Natural gas inventory	41	21
	106	85

NOTE 8 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under the Manitoba Hydro Act to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $98 million (2011 - $119 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2012	2011
	millions of dollars	
Canadian investments	129	55
U.S. investments	217	198
Premium on purchase of sinking fund investments	26	29
	372	282

Canadian investments have a weighted average term to maturity of 1 day (2011 - 1 day) and an effective yield to maturity of 1.0% (2011 - 1.0%). U.S. investments have a weighted average term to maturity of 6.0 years (2011 - 7.0 years) and an effective yield to maturity of 4.8% (2011 - 5.1%). U.S. investments are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.00 Canadian (2011 - $1.00 U.S. = $0.97 Canadian). The March 31, 2012 balance includes $28 million (2011 - $14 million) of unrealized fair value gains.

NOTE 9 GOODWILL AND INTANGIBLE ASSETS

	2012			2011		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	millions of dollars					
Intangible Assets						
Computer software and application development	201	93	108	206	101	105
Land easements	64	12	52	59	12	47
	265	105	160	265	113	152
Goodwill	108	-	108	108	-	108
	373	105	268	373	113	260

The additions to intangible assets for the year totaled $27 million (2011 - $23 million). In total, intangible assets of $20 million (2011 - $17 million) were amortized to operations during the period.

NOTE 10 REGULATED ASSETS

		2012	2011
		millions of dollars	
Power Smart programs	- electric	174	172
	- gas	44	39
Site restoration costs		36	38
Deferred taxes		31	33
Acquisition costs		21	22
Regulatory costs		4	5
		310	309

If the Corporation was not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2012 would have been reduced by $1 million (2011 - $10 million).

In total, regulated assets of $43 million (2011 - $39 million) were amortized to operations during the period.

NOTE 11 OTHER DEFERRED ASSETS

	2012	2011
	millions of dollars	
Advances to St. Joseph Windfarm Inc. (excluding current portion)	235	199
Accrued benefit asset (Note 18)	127	129
Advances to Taskinigahp Power Corporation (Note 22)	100	84
Contract receivables	74	76
Affordable Energy Fund (Note 21)	20	27
	556	515

The St. Joseph wind farm is owned by Pattern Energy and operated by St. Joseph Windfarm Inc. Financing for the wind farm was provided partly by Manitoba Hydro. In accordance with the loan agreement, Manitoba Hydro provided advances of $250 million, which will be repaid with interest over 20 years. In addition, Manitoba Hydro has provided access to a $10 million reserve loan facility. The Corporation signed a 27-year power purchase agreement with St. Joseph Windfarm Inc. in March 2010.

NOTE 12 LONG-TERM DEBT

	2012	2011
	millions of dollars	
Advances from the Province of Manitoba represented by debenture debt of the Province	9 095	8 467
Manitoba HydroBonds	136	44
Manitoba Hydro-Electric Board Bonds	194	197
	9 425	8 708
Less: Current portion of long-term debt	281	30
	9 144	8 678
Adjustment to carrying value of dual currency bonds	(24)	(28)
Debt discounts and premiums	9	(6)
Transaction costs	(28)	(27)
	9 101	8 617

During the year, the Corporation arranged long-term financing of $698 million (2011 - $915 million). The current year financing was in the form of Provincial Advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $177 million (2011 - $16 million) of debt maturities and $104 million (2011 - $14 million) of floating-rate Manitoba HydroBonds with maturity dates in 2013 and 2017. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $74 million (2011 - $75 million) issued for mitigation projects.

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

					2012	2011
			millions of Canadian dollars			
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2013	281	3.4%			281	177
2014	474	4.1%	338	5.2%	812	803
2015	109	2.0%	100	2.9%	209	100
2016	313	4.7%			313	314
2017	308	3.8%			308	301
	1 485	3.9%	438	4.6%	1 923	1 695
2018-2022	1 472	5.7%	1 449	7.2%	2 921	2 881
2023-2027	450	6.2%	150	2.8%	600	596
2028-2032	1 019	8.8%			1 019	1 019
2033-2037	505	5.0%			505	505
2038-2042	1 950	4.8%			1 950	1 550
2043-2063	507	4.5%			507	432
	7 388	5.5%	2 037	6.6%	9 425	8 678

Included in the above Canadian maturity amounts are two dual currency bonds with principal amounts repayable in Canadian currency and interest payments denominated in U.S. currency. The first dual currency bond matures in the 2013-14 fiscal year in the amount of $208 million Canadian while the second matures in the 2025-26 fiscal year in the amount of $130 million Canadian.

U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, $1.00 U.S. = $1.00 Canadian (2011 - $1.00 U.S. = $0.97 Canadian).

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
	millions of dollars	
Accounts payable and accrued liabilities	308	323
Regulated liabilities		
Purchased gas variance accounts	30	13
Rate reduction	23	-
	361	336

The Corporation passes all costs related to the purchase and transportation of natural gas on to its customers without markup. If the Corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. If actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have increased by $17 million (2011 - increased by $10 million).

Similarly, if the Corporation was not subject to rate regulation, the rate reduction would not have reduced income in the current year, and net income would have increased by $23 million.

NOTE 14 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the Corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The asset purchase obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

NOTE 15 OTHER DEFERRED LIABILITIES

	2012	2011
	millions of dollars	
Mitigation liability (Note 20)	251	185
Accrued benefit liability (Note 18)	156	154
Refundable advances from customers	87	72
Affordable Energy Fund (Note 21)	20	27
Transmission development fund	16	-
Asset retirement obligations	9	15
Other	3	6
	542	459

In 2011-12, the Corporation recorded a liability for the transmission development fund for both the Wuskwatim transmission line and the Herblet Lake transmission line as outlined in the Wuskwatim Project Development Agreement. These funds will be used for community development purposes by eligible First Nations and small or remote northern communities in the vicinity of the transmission lines.

In 2011-12, the Corporation reduced its obligation associated with the estimated removal and disposal costs of polychlorinated biphenyl (PCB) impregnated cable at the Brandon thermal generation station. The change in estimate was applied prospectively and resulted in a reduction of $6 million to the asset retirement obligation and a corresponding reduction of $6 million to depreciation expense.

Asset retirement obligations continue to be recognized for the future decommissioning of the Brandon thermal generating station and for the partial decommissioning of the Pointe du Bois generating station spillway. The Corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $18 million (2011 - $31 million), $14 million (2011 - $27 million) of which is expected to be incurred in 2024 to decommission the Brandon thermal generating station and $4 million (2011 - $4 million) is expected to be incurred by March 2016 for the partial decommissioning of the Pointe du Bois generating station spillway. No funds are being set aside to settle the asset retirement obligations.

NOTE 16 FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Corporation's non-derivative financial instruments at March 31 were as follows:

	2012		2011	
Financial Instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
		millions of dollars		
Held-for-Trading				
Cash and cash equivalents	50	50	70	70
Loans and Receivables				
Accounts receivable and accrued revenue	328	328	403	403
Interest receivable	4	4	4	4
Available-for-Sale				
Sinking fund investments	372	372	282	282
Other Financial Liabilities				
Long-term debt (including current portion)	9 382	11 712	8 647	10 045
Accounts payable and accrued liabilities	361	361	336	336
Accrued interest	104	104	95	95
Asset purchase obligation	207	340	207	280

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial instrument measurements are Level 1 measurements with the exception of the long-term debt and the asset purchase obligation that are Level 2 measurements and certain derivative instruments of nominal value associated with wholesale power marketing activities that are Level 3 measurements. Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated balance sheet date for similar instruments available in the capital market. Level 3 measurements are based on internally developed valuation models which are consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

Financial Risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the Corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed, and reviewed by the Manitoba Hydro-Electric Board, to ensure the adequacy of the risk management framework in relation to the risks faced by the Corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks has not changed significantly from the prior year.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, short-term investments and pension fund investments. The Corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The Corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair value.

The value of the Corporation's aged accounts receivable for domestic and export customers and related bad debt provisions are presented in the following table:

			2012	2011
	Domestic	Extraprovincial	Total	Total
		millions of dollars		
Under 30 days	232	21	253	316
31 to 60 days	14	-	14	17
61 to 90 days	8	-	8	8
Over 90 days	28	-	28	28
	282	21	303	369
Provision at end of period	(8)	-	(8)	(8)
Total accounts receivable	274	21	295	361

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged domestic and export receivables that are considered uncollectible. The provision of $8 million for bad and doubtful accounts did not change from the previous year.

To mitigate credit risk related to the use of natural gas derivative instruments, the Corporation adheres to well established credit exposure limits with institutions that possess a minimum credit rating of 'A' from recognized bond rating agencies or provide a parental guarantee from an 'A' rated parent company. The Corporation's maximum exposure to credit risk related to its derivative counterparties is equal to the positive fair value of its financial derivatives.

b) **Liquidity Risk**

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The Corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the balance sheet date:

	Carrying Value	2013	2014	2015	2016	2017	2018 and thereafter
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	361	361	-	-	-	-	-
Asset purchase obligation	207	16	16	16	16	16	16*
Long-term debt**	9 486	896	1 410	792	898	863	13 914
		1 273	1 426	808	914	879	13 930
Derivative financial liabilities							
Commodity derivatives							
Fixed price swap contracts	1	1	-	-	-	-	-
		1	-	-	-	-	-
		1 274	1 426	808	914	879	13 930

*per year in perpetuity

**including current portion and interest payments

c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

i. Foreign Exchange Risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in other comprehensive income until future hedged U.S. export revenues are realized, at which time the associated gains or losses in accumulated other comprehensive income are recognized in net income. For the year ended March 31, 2012, unrealized foreign exchange translation losses of $54 million (2011 - $79 million gains) were recognized in other comprehensive income and nominal net losses (2011 - $1 million) were reclassified from other comprehensive income into net income.

Manitoba Hydro also has a fair value hedging relationship between U.S. long-term debt balances and U.S. sinking fund investments. Offsetting foreign exchange translation gains and losses on these items are recognized in net income.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2012, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $0.2 million (2011 - $0.2 million), while other comprehensive income would increase (decrease) by $182 million (2011 - $174 million).

ii. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate long-term debt, and fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2012, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $10 million (2011 - $9 million), with no impact to other comprehensive income.

Interest rate swap agreements transacted by the Province of Manitoba on the Corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the Corporation are amended by the swap.

iii. Commodity Price Risk

The Corporation is exposed to electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The Corporation mitigates commodity price risk through its limited use of derivative financial instruments restricted to contracts for differences and natural gas price swaps. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

A contract for differences was entered into until December 2012 to fix the price of electricity exports for 85 600 megawatt hours. The cash difference between the fixed price that the Corporation receives and the floating price paid will be cash settled. In addition, derivative instruments associated with wholesale power marketing activities have been transacted. These contracts are reported as derivatives and carried at fair value on the balance sheet.

The Corporation has entered into natural gas price swaps until July 2016 to purchase 413 980 gigajoules of natural gas at a weighted average fixed price of $5.12/GJ. The weighted average forward price of the swaps per AECO at March 31, 2012 was $2.95/GJ. These contracts are reported as derivatives and carried at fair value on the balance sheet.

The unrealized fair value gains (losses) of financial derivative contracts as at March 31 are as follows:

	2012	2011
	millions of dollars	
Cashless collar contracts	-	(1)
Fixed price swap contracts	(1)	-
Contracts for differences	1	1

Fair values of price swaps are calculated using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2012.

Fair values of contracts for differences are calculated using the monthly forward electricity prices at pricing points specified in the contracts.

NOTE 17 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The Corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's current target is to maintain a minimum equity ratio of 25%.

The Corporation's equity ratio as at March 31 was as follows:

	2012	2011
	dollars are in millions	
Long-term debt, net of sinking fund investments	8 729	8 335
Current portion, long-term debt	281	30
Less: Cash and cash equivalents	(50)	(70)
Net debt	8 960	8 295
Retained earnings	2 450	2 389
Accumulated other comprehensive income	327	367
Contributions in aid of construction	318	295
Non-controlling interest	100	87
Total equity	3 195	3 138
Equity ratio	26%	27%

Manitoba Hydro issues debt for its capital requirements under the authority of the Manitoba Hydro Act and the Loan Act. The Manitoba Hydro Act grants the Corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under the Loan Act for the necessary borrowing authority for new capital requirements and the refinancing of any maturing long-term debt. The majority of Manitoba Hydro's long-term debt is obtained through advances by the Province of Manitoba.

NOTE 18 EMPLOYEE FUTURE BENEFITS

Manitoba Hydro employees are eligible for pension benefits under the CSSB defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. The CSSB plan requires the Corporation to contribute approximately 50% of the pension disbursements made to retired employees. Effective January 1, 2012, the EHBP was implemented. The EHBP is available to all current employees participating in the CSSB plan and provides enhanced pension benefits by improving the pension formula used to calculate pension for active service accrued after June 1, 2006. In 2011, the EHBP was included as an accrued benefit liability in other employee future benefits. In 2012, the EHBP was implemented in accordance with provincial legislation and assets were transferred to the CSSB to fund the obligation. In addition, the former employees of Centra Gas are entitled to pension benefits earned under the Centra Gas curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the WCEBP in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years.

The CSSB manages the Corporation's pension funds (MH Pension Fund and EHBP) on behalf of the Corporation. The assets related to the Centra Gas curtailed pension plans are held in trust by State Street Trust Co. of Canada. The assets and liabilities of the WCEBP are not reflected on Manitoba Hydro's consolidated balance sheet.

The following table presents information pertaining to the MH Pension Fund, the EHBP and the Centra Gas curtailed pension plans:

	MH Pension Fund		Enhanced Hydro Benefit Plan		Centra Gas curtailed pension plans		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
					millions of dollars			
Plan Assets at Fair Value								
Balance at beginning of year	763	694	-	-	84	73	847	767
Actual return on plan assets	14	81	-	-	2	10	16	91
Employer contributions	23	24	11	-	2	6	36	30
Benefit payments and refunds	(42)	(36)	-	-	(4)	(5)	(46)	(41)
	758	763	11	-	84	84	853	847
Accrued Benefit Obligation								
Balance at beginning of year	837	774	-	-	86	82	923	856
Transfer in-other benefits	-	-	9	-	-	-	9	-
Interest on obligation	54	50	-	-	6	5	60	55
Current service cost	27	25	2	-	-	-	29	25
Benefit payments and refunds	(43)	(36)	-	-	(4)	(4)	(47)	(40)
Actuarial losses	137	24	-	-	10	3	147	27
	1 012	837	11	-	98	86	1 121	923
Deficit at end of year	(254)	(74)	-	-	(14)	(2)	(268)	(76)
Unamortized past service costs	-	-	-	-	2	2	2	2
Unamortized transitional balance	(2)	(3)	-	-	-	(1)	(2)	(4)
Unamortized net actuarial loss	353	177	-	-	42	30	395	207
Accrued benefit asset	97	100	-	-	30	29	127	129

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund Fair Value 2012	MH Pension Fund Fair Value 2011	Centra Gas curtailed pension plans Fair Value 2012	Centra Gas curtailed pension plans Fair Value 2011
		millions of dollars		
Equities	495	508	57	56
Bonds and debentures	181	178	22	21
Real estate	79	71	4	4
Short-term investments	3	6	1	3
	758	763	84	84

Manitoba Hydro has $11 million on deposit with the CSSB for the EHBP. The investment income earned on the EHBP funds is based on the market value rate of return that is earned by the Civil Service Superannuation Fund. Manitoba Hydro does not have a separate portfolio of assets.

The return on pension fund assets for the MH Pension Fund was 2.1% (2011 - 12.1%). The return for the Centra Gas curtailed plan fund assets was 2.0% (2011 - 12.1%). The weighted average term to maturity on fixed income investments is 9.5 years (2011 - 9.1 years).

The most recent actuarial valuations for the Corporation's obligations under the CSSB and Centra Gas curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2011. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans, including the EHBP will occur in December 2012. The Centra Gas curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2011.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2012	2011
Discount rate - pensions	5.25%	6.50%
Discount rate - other benefits	5.50%	6.50%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees - MH Pensions	14 years	14 years
Expected average remaining service life of employees - Centra Pensions	10 years	10 years
Long-term inflation rate	2.0%	2.5%

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB Plan		Enhanced Hydro Benefit Plan		Centra Gas curtailed pension plans	
	2012	2011	2012	2011	2012	2011
				millions of dollars		
Current service cost	27	25	2	-	-	-
Administrative fees	2	2	-	-	-	-
Canada Pension Plan	14	14	-	-	-	-
Interest on obligation	54	50	-	-	6	5
Expected return on plan assets	(58)	(56)	-	-	(6)	(6)
Amortization of net experience loss	3	1	-	-	1	1
Amortization of transitional gain	(1)	(1)	-	-	-	-
	41	35	2	-	1	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the WCEBP during the year amounted to $1.0 million (2011 - $0.9 million) and reflect an employer contribution rate approximating 3.9% of pensionable earnings to January 18, 2012 and 3.8% of pensionable earnings thereafter.

Manitoba Hydro also provides some non-pension employee future benefits including banked incidental and vacation days, long-term disability, retiree health spending, sick leave vesting and severance.

The following table presents information concerning other employee future benefits:

	Other Benefits	
	2012	2011
	millions of dollars	
Accrued Benefit Liability		
Balance at beginning of year	166	157
Interest on obligation	7	3
Current service cost	21	23
Benefit payments	(18)	(14)
Transfers to EHBP	(9)	-
Actuarial loss (gain)	6	(3)
	173	166
Unamortized past service costs	(8)	(10)
Unamortized transitional obligation	(3)	(4)
Unamortized net actuarial (loss) gain	(6)	2
Accrued benefit liability	156	154

NOTE 19 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $1 651 million (2011 - $1 562 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2039, and natural gas purchases, which expire in 2013. In addition, other outstanding commitments principally for construction, are approximately $771 million (2011 - $673 million).

The Corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued at March 31, 2012 totaled $305 million (2011 - $305 million) and do not have specific maturity dates. Letters of credit in the amount of $10 million (2011 - $4 million) have been issued for energy related transactions with maturities until 2013.

NOTE 20 MITIGATION

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works, offsetting programs and residual monetary compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydroelectric development in five signatory First Nation communities (Nelson House, Split Lake, York Landing, Norway House and Cross Lake). The mitigation program continues to address impacts arising from past hydro-electric developments, particularly for Aboriginal people residing or engaged in resource harvesting in the project area, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of all projects amounted to $123 million during the year (2011 - $92 million). In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $251 million (2011 - $185 million). To March 31, 2012, $948 million (2011 - $825 million) has been recorded to mitigate and compensate for all project-related impacts. These expenditures are included in the costs of the related projects and amortized over the respective remaining lives. There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation payments or liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The Corporation has assumed obligations totaling $145 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2012 amounted to $11 million (2011 - $12 million).

NOTE 21 AFFORDABLE ENERGY FUND

In accordance with the provisions of the Winter Heating Cost Control Act, Manitoba Hydro established an Affordable Energy Fund (the Fund) in the initial amount of $35 million for the purpose of providing support for programs and services that:

a) encourage energy efficiency and conservation;
b) encourage the use of alternative energy sources, including earth energy; and
c) facilitate research and development of alternative energy services and innovative energy technologies.

For accounting purposes, the Fund is classified as other deferred assets (Note 11) with an offsetting balance in other deferred liabilities (Note 15). Expenditures of $7 million (2011 - $4 million) during the year were charged to operations with the asset and liability accounts reduced accordingly. As at March 31, 2012, the balance remaining in the Fund amounted to $20 million (2011 - $27 million).

NOTE 22 NON-CONTROLLING INTEREST

Manitoba Hydro has entered into a partnership agreement with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station is currently under construction and projected to be placed in service in the summer of 2012.

The ownership interest of TPC in the Wuskwatim Power Limited Partnership of $100 million (2011 - $87 million) is represented as a non-controlling interest in the financial statements.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC. As at March 31, 2012, Manitoba Hydro has provided advances to TPC of $91 million (2011 - $78 million). The advances are repayable by TPC, with interest, subsequent to the in-service date of the Wuskwatim Generating Station.

NOTE 23 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments: electricity and gas. Each segment has its own particular economic characteristics and differs in nature, production processes and technology. The electricity segment encompasses the generation, transmission and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

The following table contains information related to the operating results, assets, liabilities, contributions in aid of construction and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
				millions of dollars				
Revenues [1]	1 573	1 616	132	143	-	-	1 705	1 759
Expenses								
Operating and administrative	410	402	62	61	-	-	472	463
Finance expense	385	388	19	18	19	19	423	425
Depreciation and amortization	353	366	26	25	2	2	381	393
Water rentals and assessments	119	120	-	-	-	-	119	120
Fuel and power purchased	146	106	-	-	-	-	146	106
Capital and other taxes	84	82	19	20	-	-	103	102
Corporate allocation	9	9	12	12	(21)	(21)	-	-
	1 506	1 473	138	136	-	-	1 644	1 609
Net income (loss)	67	143	(6)	7	-	-	61	150
Total assets	13 203	12 288	588	594	-	-	13 791	12 882
Total liabilities	10 196	9 345	400	399	-	-	10 596	9 744
Contributions in aid of construction	285	262	33	33	-	-	318	295
Retained earnings	2 416	2 349	34	40	-	-	2 450	2 389

(1) Revenues are stated net of cost of gas sold of $197 million (2011 - $261 million) and Manitoba Hydro International project costs of $19 million (2011 - $23 million).

NOTE 24 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2011 have been reclassified in order to conform to the presentation adopted in 2012.

FINANCIAL STATISTICS

For the year ended March 31	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
					millions of dollars					
Revenues										
Electrical:										
Residential	490	503	476	463	436	410	387	386	368	354
General service	701	697	669	664	638	614	597	553	550	521
Extraprovincial	363	398	427	623	625	592	827	554	351	463
Other revenue	19	18	11	21	13	11	10	9	11	10
Gas:										
Residential	172	205	222	292	268	258	245	244	235	247
Commercial / Industrial	151	193	225	281	254	244	267	258	252	261
Transportation	5	5	5	5	4	4	3	5	4	4
Other revenue	1	1	2	2	2	2	2	2	3	3
	1 902	2 020	2 037	2 351	2 240	2 135	2 338	2 011	1 774	1 863
Expenses										
Operating and administrative	472	463	440	429	381	381	368	357	339	320
Finance expense	423	425	410	471	440	506	503	502	487	479
Depreciation and amortization	381	393	384	368	349	332	322	311	296	281
Water rentals and assessments	119	120	121	123	124	112	131	111	71	103
Fuel and power purchased	146	106	104	176	134	226	125	135	569	151
Capital and other taxes	103	102	99	87	80	77	77	75	73	66
Cost of gas sold	197	261	316	431	386	379	397	384	375	392
	1 841	1 870	1 874	2 085	1 894	2 013	1 923	1 875	2 210	1 792
Net Income	61	150	163	266	346	122	415	136	(436)	71
Assets										
Property, plant and equipment	13 631	12 967	12 688	12 300	11 884	11 424	11 065	10 748	10 399	9 991
Less accumulated depreciation	4 984	4 752	4 612	4 358	4 187	3 924	3 657	3 447	3 241	3 042
Construction in progress	3 150	2 739	2 052	1 438	1 238	878	602	475	378	356
Sinking fund investments	372	282	822	666	718	630	555	562	715	948
Current and other assets	1 622	1 646	1 487	1 499	2 113	1 914	1 917	1 614	1 652	1 981
	13 791	12 882	12 437	11 547	11 766	10 922	10 482	9 952	9 903	10 234
Liabilities and Retained Earnings										
Long-term debt	9 101	8 617	8 228	7 668	7 218	[illegible] 822	7 051	7 048	7 [illegible]14	6 925
Current and other liabilities	1 495	1 127	1 328	1 637	2 097	2 380	1 849	1 738	1 781	1 875
Contributions in aid of construction	318	295	295	296	300	298	297	296	274	264
Non-controlling interest	100	87	62	39	24	15	-	-	-	-
Retained earnings	2 450	2 389	2 239	2 076	1 822	1 407	1 285	870	734	1 170
Accumulated other comprehensive income	327	367	285	(169)	305	-	-	-	-	-
	13 791	12 882	12 437	11 547	11 766	10 922	10 482	9 952	9 903	10 234
Cash Flows										
Operating activities	567	595	589	688	633	443	710	433	(127)	432
Financing activities	725	674	1 124	424	487	227	77	236	753	213
Investing activities	1 312	1 373	1 698	1 086	988	788	677	666	650	629
Financial Indicators										
Interest coverage[1]	1.10	1.27	1.32	1.49	1.69	1.23	1.77	1.25	0.17	1.14
Debt ratio[2]	0.74	0.73	0.73	0.77	0.73	0.80	0.81	0.85	0.87	0.80
Capital coverage[3]	1.13	1.25	1.30	1.77	1.62	1.10	2.28	1.20	(0.32)	1.10

[1] Interest coverage represents net income plus interest on debt divided by interest on debt.

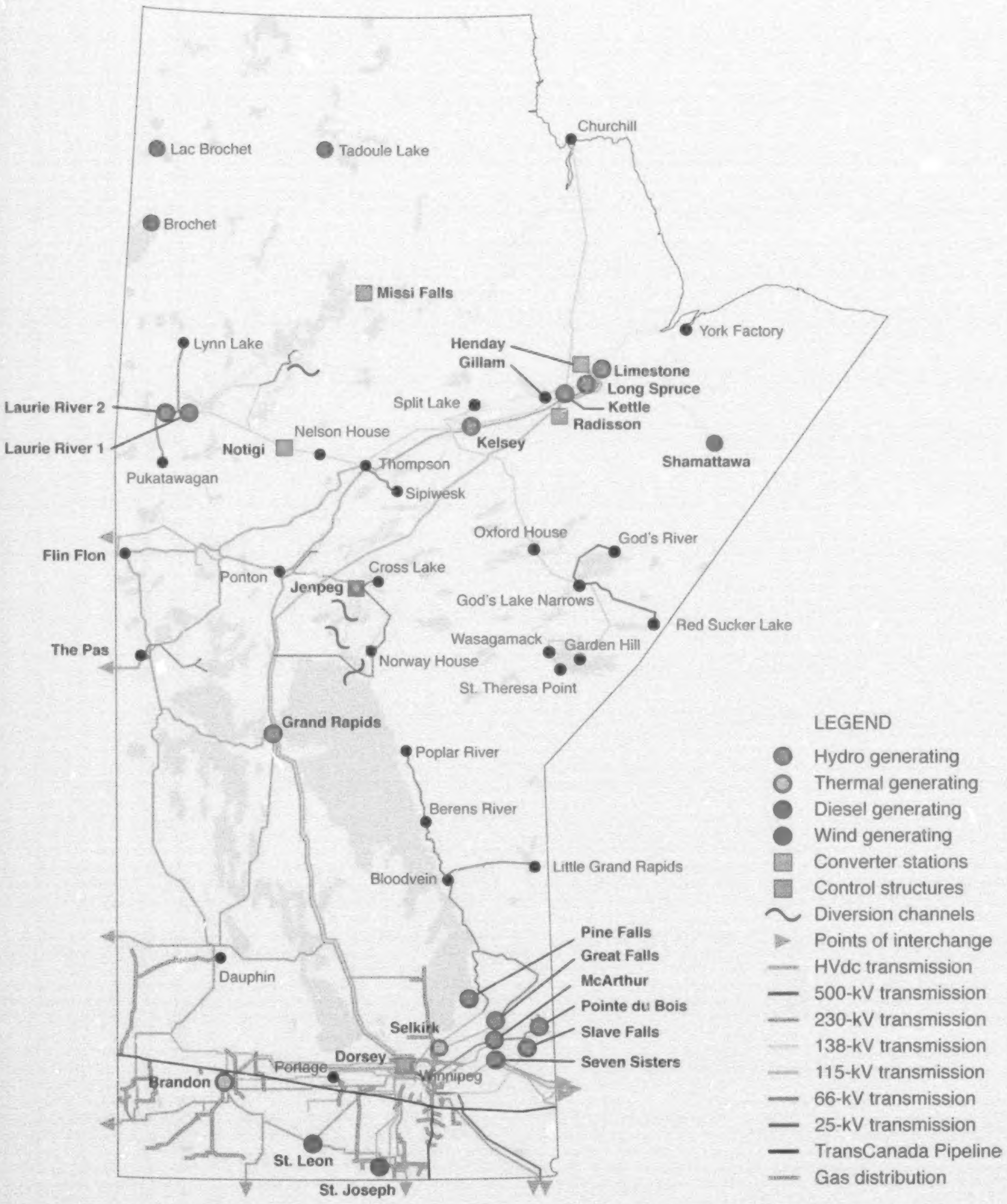
[2] Debt ratio represents debt (long-term debt plus notes payable minus sinking fund investments and temporary investments) divided by debt plus equity plus contributions in aid of construction.

[3] Capital coverage represents internally generated funds divided by capital construction expenditures.

OPERATING STATISTICS

For the year ended March 31	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Electric System Capability										
Capability (000 kW)	5 456	5 489	5 501	5 480	5 465	5 461	5 469	5 470	5 471	5 464
Manitoba firm peak demand (000 kW)	4 343	4 261	4 359	4 477	4 273	4 184	4 054	4 169	3 959	3 916
Percent change	1.9	(2.2)	(2.6)	4.8	2.1	3.2	(2.8)	5.3	1.1	4.1
Electric System Supply										
Total energy supplied (millions of kWh)										
Generation	33 235	34 102	33 961	34 528	35 354	32 132	37 620	31 548	19 338	29 167
Isolated systems	14	13	13	13	12	12	12	11	11	11
	33 249	34 115	33 974	34 541	35 366	32 144	37 632	31 559	19 349	29 178
Electric Load at Generation (millions of kWh)										
Integrated system	23 499	23 783	23 295	24 285	23 985	23 327	22 622	22 452	21 907	21 965
Isolated system	14	13	13	13	12	12	12	11	11	11
	23 513	23 796	23 308	24 298	23 997	23 339	22 634	22 463	21 918	21 976
Percent change	(1.2)	2.1	(4.1)	1.3	2.8	3.1	0.8	2.5	(0.3)	7.0
Electric System Deliveries (millions of kWh)										
Energy delivered in Manitoba										
Residential	6 930	7 060	6 899	6 954	6 838	6 539	6 266	6 370	6 266	6 135
General service	13 840	13 727	13 587	14 256	14 223	13 965	13 669	13 365	13 014	12 143
	20 770	20 787	20 486	21 210	21 061	20 504	19 935	19 735	19 280	18 278
Extraprovincial	10 244	10 344	10 860	10 122	11 086	10 100	13 773	10 475	6 966	9 735
	31 014	31 131	31 346	31 332	32 147	30 604	33 708	30 210	26 246	28 013
Gas Deliveries (millions of cubic metres)										
Residential	509	591	581	696	682	653	600	681	653	714
Commercial / Industrial	728	821	803	866	856	811	782	917	893	980
Transportation	629	584	619	603	618	592	598	559	577	640
	1 866	1 996	2 003	2 165	2 156	2 056	1 980	2 157	2 123	2 334
Number of Customers										
Electric:										
Residential	474 661	469 635	465 055	460 804	455 430	450 823	446 370	442 840	438 953	435 507
General service	68 020	67 664	67 304	66 668	66 169	66 038	63 421	62 826	62 697	62 218
	542 681	537 299	532 359	527 472	521 599	516 861	509 791	505 666	501 650	497 725
Gas:										
Residential	242 813	241 123	239 535	239 597	237 724	236 086	234 108	231 366	229 194	227 071
Commercial / Industrial	24 886	24 838	24 766	23 411	23 435	23 483	23 709	24 559	24 437	24 202
	267 699	265 961	264 301	263 008	261 159	259 569	257 817	255 925	253 631	251 273
Number of Employees										
Regular	4 631	4 860	4 777	4 752	4 709	4 406	4 409	4 386	4 389	4 399
Construction	1 693	1 439	1 424	1 266	1 107	1 161	1 154	1 098	1 006	966
	6 324	6 299	6 201	6 018	5 816	5 567	5 563	5 484	5 395	5 365

MAJOR ELECTRICAL AND GAS FACILITIES


Churchill
Lac Brochet
Tadoule Lake
Brochet
Missi Falls
York Factory
Lynn Lake
Henday
Gillam
Limestone
Long Spruce
Kettle
Radisson
Laurie River 2
Split Lake
Laurie River 1
Notigi
Nelson House
Kelsey
Shamattawa
Thompson
Pukatawagan
Sipiwesk
Oxford House
God's River
Flin Flon
Ponton
Cross Lake
Jenpeg
God's Lake Narrows
Red Sucker Lake
The Pas
Wasagamack
Garden Hill
Norway House
St. Theresa Point
Grand Rapids
Poplar River
Berens River
Little Grand Rapids
Bloodvein
Pine Falls
Great Falls
McArthur
Pointe du Bois
Slave Falls
Seven Sisters
Dauphin
Selkirk
Dorsey
Portage
Winnipeg
Brandon
St. Leon
St. Joseph
LEGEND
Hydro generating
Thermal generating
Diesel generating
Wind generating
Converter stations
Control structures
Diversion channels
Points of interchange
HVdc transmission
500-kV transmission
230-kV transmission
138-kV transmission
115-kV transmission
66-kV transmission
25-kV transmission
TransCanada Pipeline
Gas distribution

SOURCES OF ELECTRICAL ENERGY

Sources of Electrical Energy Generated and Purchased

For the Year Ended March 31, 2012

Nelson River	**79.98 %**
Billion kWh generated	**27.6**
Limestone	27.01 %
Kettle	24.96 %
Long Spruce	20.89 %
Kelsey	5.19 %
Jenpeg	1.93 %
Winnipeg River	**8.73 %**
Billion kWh generated	**3.0**
Seven Sisters	2.35 %
Great Falls	2.10 %
Pine Falls	1.40 %
Pointe du Bois	0.99 %
Slave Falls	0.98 %
McArthur	0.91 %

Saskatchewan River	**7.35 %**
Billion kWh generated	**2.5**
Grand Rapids	7.35 %
Laurie River	**0.10 %**
Billion kWh generated	**0.0**
Laurie River #1	0.05 %
Laurie River #2	0.05 %

Thermal	**0.22 %**
Billion kWh generated	**0.1**
Brandon	0.18 %
Selkirk	0.04 %
Purchases (excl. wind)	**0.98 %**
Billion kWh purchased	**0.3**
Wind	**2.64 %**
Billion kWh purchased	**0.9**

Manitoba Hydro Generating Stations and Capabilities

For the Year Ended March 31, 2012

Interconnected Capabilities

Station	Location	Number of units	Net Capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	88
McArthur	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	250
Kettle	Nelson River	12	1 220
Jenpeg	Nelson River	6	129
Long Spruce	Nelson River	10	1 010
Limestone	Nelson River	10	1 340
Laurie River (2)	Laurie River	3	10
Thermal			
Brandon		3	333
Selkirk		2	125
Isolated Capabilities			
Diesel			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Generating Capability			**5 485**

Manitoba Hydro

Manitoba Hydro
PO Box 815 STN MAIN
Winnipeg Manitoba R3C 2P4
Canada

www.hydro.mb.ca
publicaffairs@hydro.mb.ca
204 360-3311